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# THE PATH TO PROSPERITY

A COLLECTION OF THE SPEECHES & WRITINGS OF  
G. D. Birla







G. D. BIRLA

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A Collection of  
the Speeches & Writings of  
G. D. BIRLA

Edited by  
PARASNATH SINHA

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With a foreword by  
SIR GEORGE SCHUSTER



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To  
R. D. M.



## FOREWORD

I have felt greatly pleased and honoured in being asked to write the Foreword to this book by my old friend and critic G. D. Birla.

I have read its pages with fascinated interest. Some of the earlier speeches bring back to me vivid memories of scenes in the Assembly, when we argued against each other. Yet the matters which divided us were on the surface only: on fundamentals we really thought the same. Looking back over these papers and speeches which cover more than 20 years, one can see the fundamental issues, as Mr. Birla saw them, clearly revealed. They are, first, that India could only advance to true welfare by increasing her production; and, secondly, that the great national effort required to achieve this object could only be inspired by a National Indian Government. On both these issues I always agreed with him. "No foreign Government can be fit to undertake a plan for social uplift" wrote Mr. Birla in one of the earlier papers (Page 32); but he went on to say "With the advent of a National Government our difficulties do not end, our task then only begins."

It is impossible in a short foreword to comment on all the valuable lessons to be learnt from this book. I have found particular interest in tracing how the writer's thoughts developed on the question of economic planning, as covered by the first six papers. I expect his thoughts will develop still further, and I hope that he will continue to give public utterance to them.

I found great interest too in turning from these first papers to his most recent speeches made in 1949. From these I should like to select three points on which I find myself in strong agreement with him.

The first of these points is one made in a speech of May 1949. He says

"During the war period the rise in prices was attributed to the large expansion of currency and credit. I never agreed with this, and so came in for quite a lot

of criticism. I always maintained that restricted production was the root cause of rising prices, and that neither controls nor a policy of deflation could solve the problem which could be met only by a substantial rise in production".

I am convinced that Mr. Birla is right in the sense that the primary need is to stimulate constructive effort and new enterprise. There may be situations in which deflationary monetary measures may be necessary, but any Government authority which relies on these alone will find that the remedy is far worse than the disease.

The second point which I select for comment and agreement is Mr. Birla's plea (page 522) for co-operation among all ranks in India—co-operation between different sections of society, co-operation between management and workers, co-operation between Government and private enterprise. Here we in Britain have a problem exactly the same as in India. We need a great concerted national effort, and yet we desire to retain a free democracy. I myself have said on many occasions that there are three alternatives before us—co-operation, compulsion or decay. If the people of India or Britain are to survive as free and prosperous nations, they must find a way to inspire a spirit of free co-operation.

The third point which I select for agreement is closely allied to the second. It is not only co-operation *within* each nation which is necessary, but co-operation *between* nations. Mr. Birla, in the last sentence of this book, makes a plea for co-operation between Britain and India.

"We are friends. We desire to continue to be friends. I hope this feeling will be reciprocated by all sections of British society. India needs the sympathy and co-operation of your country. It needs equipment and know how to fight poverty. I hope this co-operation will be forthcoming in abundance. JAI HIND."

So says Mr. Birla—and so say I. And I am sure that the British people want to give their sympathy and co-operation to the utmost limit of their powers.

GEORGE SCHUSTER



## PREFACE

The central theme in these speeches and writings covering a period of over two decades is production with planning as the instrument to its attainment. The emphasis on planning has to some extent tended to overtake the earlier emphasis on problems of money and exchange. This is not to imply that money is secondary, even in the sense in which the Bombay Planners, possibly erroneously, described it as a camp-follower. But Mr. Birla has correctly seen the change in importance from the somewhat polemical issues connected with currency and finance to the more vital issues of production and planning. In effect, the emphasis has moved from means to ends.

This explains the title of this book—"The Road to Prosperity". Prosperity is the end; the road is important only as the means. Prosperity has both its producing and consuming sides; they form the substance. Our wants mean so much of our economic life and their satisfaction gives rise to the need for production; the maintenance of production depends on increasing consumption and the finance of both production and consumption rests on income which is itself the outcome of production. Mr. Birla sees the interaction of these components of prosperity; he tends, however, to see the central component in production. Given adequate production, consumption and investment will come forth almost of themselves. In this emphasis no one conversant with recent events can doubt that he is right.

It is unfortunate that this thesis that our fortunes rest basically on production, and production only, is still not adequately recognised. There has, it is true, in the last few years been a greater appreciation of the unwisdom of confining one's attention to problems of distribution which, for a country, still engulfed in primary poverty, are clearly of less account. But a great belief in production with the firm will to achieve it by harder work has still to be created; it is hoped that these essays may make some little contribution to this urgently needed faith.



Meanwhile, God save us from those who, if they could have their way, would "array class against class, destroy the productivity of the nation and with half-baked schemes for the aid of the worker, actually deprive him of the chance to work".

The editor's thanks are due to all those who have helped him in his task in one way or another; particularly, to Sir George Schuster who has been good enough to write the Foreword and to Sri B. P. Thakur who has seen the book through the Press.

July 22, 1950.

P. N. S.

# CONTENTS

	PAGE
FOREWORD	vii
PREFACE	ix
PLANNING	
I. A PLEA FOR PLANNING .. ..	1
II. ECONOMIC PLANNING .. ..	27
III. THE BOMBAY PLAN .. ..	35
IV. PRELIMINARIES FOR PLANNING ..	58
V. A CRITIQUE OF GOVERNMENT PLANNING	76
VI. OUTLINE OF A 5-YEAR PLAN .. ..	89
PROTECTION	
I. SOLVENCY THROUGH PRODUCTION ..	127
II. THE STEEL INDUSTRY .. ..	146
III. THE WAGON INDUSTRY .. ..	154
IV. COASTAL TRAFFIC .. ..	164
V. THE MATCH INDUSTRY .. ..	171
VI. IMPERIAL PREFERENCE .. ..	174
CURRENCY	
I. INDIAN CURRENCY IN RETROSPECT ..	197
II. GOLD STANDARD AND RESERVE BANK	223
III. OPPOSITION TO 1s. 6d. .. ..	237
IV. DEPRESSION AND MONETARY REFORM	243
V. GOLD TO STERLING .. ..	268
FINANCE	
I. INDIRECT TAXATION .. ..	311
II. CONCEALED LOSSES .. ..	318
III. RETRENCH AND PROTECT .. ..	326
IV. INDIA BETWEEN TWO FIRES .. ..	338
V. "BLACK CLOUDS" .. ..	349
VI. SOME IMPORT DUTIES .. ..	359
VII. RESERVATIONS AND SAFEGUARDS ..	373

INDUSTRY AND LABOUR	PAGE
I. LABOUR AND CAPITAL .. ..	293
II. WAGES AND EMPLOYMENT .. ..	403
III. AN INDUSTRIAL MISSION .. ..	414
IV. INDUSTRIES IN INDIA AND ABROAD .. ..	427
STERLING BALANCES	
I. INDIA'S WAR PROSPERITY—A MYTH .. ..	437
II. SECURITY OF INDIA'S CREDITS .. ..	454
III. INFLATION OR SCARCITY ? .. ..	466
IV. GUARANTEES INDIA MUST HAVE .. ..	486
POST-WAR ECONOMY	
I. INDIA FACING ECONOMIC CRISIS .. ..	511
II. STATE AND PRIVATE ENTERPRISE .. ..	520
III. OUR AILMENTS AND THEIR CURE .. ..	532
IV. ECONOMIC CONDITIONS IN INDIA .. ..	550
INDEX .. ..	565

## PLANNING

"The great art to make a nation happy, and what we call flourishing, consists in giving everybody an opportunity of being employed; which to compass, let a Government's first care be to promote as great a variety of Manufactures, Arts and Handicrafts as human wit can invent; and the second to encourage Agriculture and Fishery in all their branches that the whole Earth may be forced to exert itself as well as Man. It is from this Policy and not from the trifling regulations of Lavishness and Frugality that the greatness and felicity of Nations must be expected; for let the value of Gold and Silver rise or fall, the enjoyment of all Societies will ever depend upon the Fruits of the Earth and the Labour of the People; both which joined together are a more certain, a more inexhaustible and a more real Treasure than the Gold of Brazil or the Silver of Potosi."

—MANDEVILLE, *Fable of the Bees*,





# I

## A PLEA FOR PLANNING\*

Somehow or other, an impression is gaining ground that we have seen the worst of the depression and that the situation is improving all round. Sir George Schuster in his recent budget speech tried to convince his audience that the economic condition of India was improving. But those who are in touch with business as well as the Indian masses are not likely, I fear, to agree with him. It is possible that we have seen the worst, simply because the worst could not be worse. Besides, as the conditions in America and England are improving, this may have some psychological effect on the Indian mind too, making people more optimistic. But mere words cannot induce prosperity, nor can cheerful news from abroad by itself be any cure for our ills. Some steps to combat the hydra-headed monster gripping our entire economic life have to be taken before we can breathe freely again. Let us review the position to gain some idea about the realities confronting us at present.

### The Industrial Position

First of all, we shall examine the industrial position both in respect of production and of financial results. The depression is supposed to have begun in Septem-

\* An address delivered at the Annual Session of the Federation of Indian Chambers of Commerce and Industry held at Delhi on 1st April, 1934.



ber, 1929. We shall, therefore, take the figures of industrial production for 1929-30 and compare them with those for 1932-33 :—

	(000 omitted)	
	1929-30	1932-33
Cotton twist & yarn	833,560 lbs.	1,016,418 lbs.
Cotton piecegoods	562,236 "	737,185 "
Mill consumption		
raw Jute	6,400 Bales	4,400 Bales
Paper	41 Tons	41 Tons
Coal	22,700 " (1929)	18,770 " (1932)
Manganese	750 "	88 "
Salt	148 "	150 "
Iron Ore	1,433 "	673 "
Pig Iron	1,376 "	880 "
Silver	7,300 Ounces	6,000 Ounces
Tea	432,800 lbs.	433,400 lbs.
Sugar (raw)	2,704 Tons	4,651 Tons

It will be seen that our production, except in the case of cotton and sugar, is in most cases substantially reduced. Could it therefore be said that we have turned the corner ?

### Optimism Not Justified

Looking however to the financial side of the thing, it could be said that excepting cotton, coal and certain minerals almost all other industries are doing fairly well and this may be responsible for the feeling of optimism. But I may correct the impression, if there be one, that in the worst days of 1931 all these industries were losing. Barring tea and coal and certain other minerals, no industry incurred actual losses even in the worst days of 1931. The margin in the case of the jute industry has since then slightly increased due to its having consumed its old stock of raw jute which

was held at higher prices and also due to the present abnormally low price of the raw material as well as restricted production. But even in the worst days of 1931, only about a dozen jute mills actually incurred losses. Tea and coal were losing in 1931. Of the two, tea has undoubtedly improved on account of the quota system while coal is still in a bad way. The Tata Iron and Steel, even in 1931, made a profit of 99 lakhs. Paper was earning in 1931 as it is now. Cotton was much better off in 1930. The industrial position thus affords no proof of our having turned the corner. But even if it were otherwise, we could not judge of Indian conditions by the experience of the few industries.

All the industries combined employ no more than 35 lakhs of men, viz., just one per cent. of the total population and but for a few industries like cotton, sugar, salt and kerosene, they do not cater mainly for the Indian masses. Large industries again have got certain advantages which render adjustments easy enough for them even in bad times. First of all, in India most of the industries mentioned are either working under a protective system or enjoy a monopoly which eliminates, to a certain extent, competition from abroad. Secondly, many of the industries are only in their infancy and have not developed sufficiently to cause any serious internal competition. Thirdly, in industries like tea and jute, we have made our position better by restricting supplies. But apart from such advantages or adjustments, large industries can effect various other economies, such as reduction of wages, better output, etc., which are generally summed up by the word rationalization, and the fact that they do not have to encounter competition from smaller industries also puts them in a comfortable position. Their prosperity, at any rate in India, cannot



therefore reflect the true position of the country. If the Finance Member can balance his budget by imposing new taxes it could not be said that the budgets in cottages too are balanced. And likewise, if large industries which have exceptional advantages and can always make various adjustments easily enough are in a position to declare dividends, it could not be said that the country as a whole is flourishing. In making a correct estimate of the country's position, we should, therefore, rely more on the condition of trade, commerce and agriculture.

### **Trade and Commerce**

Now so far as trade and commerce is concerned, I can say from personal experience, as one interested in commerce myself and belonging to a community which is engaged in trading in most parts of the Indian continent, that along with indigenous banking, it finds itself at present in the greatest difficulty. Goods worth crores of rupees are annually imported and exported through the hands of men of my community and I know that they barely recover their establishment charges. Traders all over the country are in the saddest plight. The money-lenders do not get back either the principal or the interest due to them—a fact which has been corroborated by the Finance Member himself.

### **Agricultural Production**

As regards agriculture, go to the Zamindar and ask him how and to what extent he is able to realize his rents and he will give you an illuminating reply. But without seeking such aid we may turn for a moment to the figures of agricultural production and then proceed with our analysis. The figures are:—

	1929-30	1932-33
Rice ..	.. 311 lakh Tons	306 lakh Tons
Wheat ..	.. 105 " "	95 " "
Groundnut ..	.. 266 " "	283 " "
Raw Sugar ..	.. 28 " "	47 " "
Cotton ..	.. 52 " Bales	55 " Bales
Jute ..	.. 103 " "	71 " "

The production of raw sugar and groundnut has increased but that of rice, wheat and jute has decreased. It may be said that on the whole, agricultural production is more or less stationary. On the other hand, as a result of the fall in prices, the agriculturist's income has been very much reduced and charges represented by land revenue, interest, etc., being fixed, the margin of his profit has more or less disappeared. And the worst of it is that there has been a heavier fall in the prices in which he is interested as producer than in those in which he is interested as consumer. The index numbers show that the fall has been in the ratio of 47:22. The agriculturist has thus suffered on three fronts. He has been hit, firstly, by the precipitous fall in the prices of the commodities which he sells; secondly, by the rigidity of some of the items on the expenditure side of his budget, and thirdly, by the incident that the prices of commodities which he consumes have not fallen to the same extent as the prices of the commodities which he produces. His plight, therefore, is most severe and it is naturally reflected in the figures relating to what he has been able to consume or to spend.

### The Real Position

Confining our attention to figures which are really helpful in this connection. We can present the following rough sketch of the position:—

## PLANNING

	1929-30	1932-33
Consumption of Mill-made cloth	12.40 yards per head	11.94 yards per head
Consumption of Kerosene	232 million gls. (Avg. 10 yrs. ending 1930)	213 million gls. (1933)
Consumption of Salt	19,65,000 Tons (Avg. 10 yrs. ending 1930)	18,84,000 Tons (1933)
Precious Metals	Rs. 35 crores (Imports 1928-29)	Rs. 65 crores (Exports)
Inland Money Orders		
Issued	Rs. 93 crores	Rs. 75 crores
Post-cards	586 million	451 million
Number of 3rd class passengers originating	61 crores	48 crores

The figures tell their own tale. But for the sale of gold, things would have been unimaginable. One wonders what economy the agriculturist could have possibly made had there been no gold to sell. But the problem is by no means solved. Gold supplies must come to an end some day and unless things show a substantial improvement before we reach that stage, a very serious situation would undoubtedly arise. While in normal years India used to absorb precious metals worth Re. 1 per head of the population, in 1932-1933 she sold out Re. 1-13-0 worth of gold per head. This may give us some idea of the balance sheet of the masses. A gap of Rs. 3 per head could be seen in transactions relating to precious metals alone. Other economies in expenditure on travelling, kerosene, post-cards and other items have been made. Does it mean that calculated in real wealth, the average income of the people is down by Rs. 4 per head as compared with



1929 ? Rs. 4 per head looks a paltry sum but it is a big thing for a poor country like India. I estimate that in terms of real wealth, our income in 1932-33 was down by nearly 150 crores as compared with 1929-30, to go no further back than that. If India is not going in rags and tatters, it is because she has chosen to live on her capital, not only doing without any importation of gold and silver but even parting with her accumulated stocks. But now if things do not improve, economies in the consumption of necessities of life become inevitable, and I ask, is there any scope for further economies? Our consumption at present is below the safe minimum. I wonder whether we are not now entering the danger zone.

### "Progress" Over Two Decades

We may cast a cursory glance here at our progress during the last two decades, judging progress by the figures of consumption in the pre-war period and in 1931-33:—

Articles.	Available supply for consumption (Pre-war, 1911-1913 Average)	Available supply for consumption (1931-1933 Average)
Rice, wheat, barley, jowar, bajra, maize, gram, linseed, rape- seed, sesamum and groundnut	51 million tons (per capita 362 2½ lbs. a yr.)	57 million tons (per capita 360 lbs. a yr.)
Sugar (adding import- ed sugar to the figure obtained by converting the total available supply of gur into sugar on a		



## PLANNING

Articles	Available supply for consumption (Pre-war, 1911-1913 Average)	Available supply for consumption (1931-1933 Average)
50 p.c. basis)	2 million tons (per capita 14 2/9 lbs. a yr.)	2½ million tons (per capita 15 5/7 lbs. a yr.)
Total foodstuffs	53 million tons (per capita 376 8/9 lbs. a yr.)	59¼ million tons (per capita 375 5/7 lbs. a yr.)
Salt	1,805,000 tons (per capita 15 5/6 lbs. a yr.)	1,824,000 tons (per capita 12 lbs. a yr.)
Kerosene	174 million gals. (per capita .55 gal. a yr.)	213 million gals. (per capita .6 gal. a yr.)
Consumption of mill- made cloth, Indian and imported	(per capita 12.35 yds.	(per capita 11.94 yds.
3rd class passengers	41 crores	48 crores
Post-cards	44 crores (per capita 1.4)	45 crores (per capita 1.3)
Treasure	Rs. 36 crores (per capita import Re. 1-2)	Rs. 65 crores (per capita export Re. 1-13)

The figures are self-explanatory. As could be seen, except in the case of kerosene and third class passengers every other consumption has gone down. And this with the sale of gold! India cannot help looking with wistful eyes at those countries which have made great progress in the economic field while we have lost ground even in respect of the scanty consumption on which we have existed so far. What a distressing state of things! Consideration for the future, however, is more important than brooding over the past. The present position is that the consumption of the masses is abnormally low and it is showing signs

of deterioration after the advent of the recent depression. The condition in other countries during the last two years has decidedly improved and if the world buys more and our export trade and internal prices improve, we may as a result of that again reach the pre-depression level. But is this all that we want? Certainly not.

### Planned Action Necessary

The pre-depression level itself was not a thing with which one could rest content. No civilised nation has got such a poor standard of living as India had even during the most prosperous days. Our most urgent need, therefore, is to bring about a substantial rise in our standard of living. And here one naturally feels inclined to ask why with our vast resources including supplies of idle labour we cannot raise our standard of living to a reasonable level. The reply is simple. We cannot improve our lot until we decide to take mass action, well thought out, well planned, as part of a scheme of co-ordination launched with the necessary authority to make it a success. Governmental intervention thus becomes necessary. But Government by themselves cannot do or achieve much. The co-operation of the people is essential to the success of any such scheme. The Government being the ruling authority must take the initiative and invite the latter to join hands with them in the endeavour.

I do not charge the Government with utter inaction. During the last decade several things have undoubtedly been done by them. For instance, they have pursued the policy of protection, now vigorously, now half-heartedly, and thereby done some good to industries and to agriculture, as in the case of wheat. The Imperial Council of Agricultural Research has been



doing a lot of useful work. Fruit farming is being encouraged, though on a very small scale. There is some talk of affording protection to dairy products. It is intended to launch a 'Drink More Milk' campaign—an absurd imitation of the British propaganda which overlooks the difference between the two countries, for while in England there is more milk and fewer stomachs to drink it, in India there are more stomachs and less milk to be drunk. 'Produce more milk' and not 'drink more milk' should have been the appropriate slogan for this country. The Government again is encouraging, though passively, the restriction of the jute crop though it does not tell the agriculturist what substitute crop he should grow. Similarly, the Government has helped in fixing a quota for tea exports and is even now thinking of helping the restriction of tea, jute and coal production. It does not, of course, give any thought to the question if it is not possible to usher in Recovery by a better way than destruction of crops, restriction of production and—control of births. A minimum price for sugarcane is to be fixed. Trade pacts and fixation of zones for industries and a lot of such other things are in the air.

It is gratifying to note that the Government is getting more alive to the situation. The credit for giving a lead goes to Bengal and other provinces are now following suit. The Central Government too seems to have something in its mind and the European community too at long last has realised that something must be done to save the situation. It could not be said that the Government is not moving. It is undoubtedly moving but at a snail's pace and in spite of the assurance of the Finance Member to the contrary, without a plan. Tariffs, excise duties, fixation of zones and of minimum prices, restriction of production under

rare circumstances, and Trade Pacts, all these could become part of a plan if there were one. But unless and until they form links in a chain with a purpose behind it, they are not going to take us anywhere.

The Government knows the evil of drifting without a Plan. But it would not think of taking planned action. Probably this apathy on the part of the Government is due to the fact that the head of every department in the Secretariat has a five-year plan of ruling and then retiring. Much the same could be said of the Burra Sahib in Clive Street, that "*imperium in imperio*" which none can afford to ignore in this country. The visions are thus limited to five years throughout which the one object of the man in authority in New Delhi is to maintain law and order and balance budgets and of the Clive Street Burra Sahib to retire leaving things as he found them; nothing altered, nothing disturbed. It seems to be nobody's business to visualize the problem as a whole and to plan its solution.

### Evils of Drifting

The result is that whatever we achieve, we achieve in a haphazard fashion and are not able to consolidate our position. We advance on certain fronts and recede on others. Take the case of the cotton industry itself. The present productive capacity of the Indian Mills is about 3,600 million yards, just equal to our present requirement of Mill-made cloth—a very low figure indeed for a population of 360 millions. But while on the one hand nearly 60 per cent. of the mills in Bombay are closed for want of markets and thousands are thrown out of employment, on the other hand we have entered into pacts with Lancashire and Japan to purchase from them cloth which we our-



selves can produce. Under the pact with Japan, we are to sell to it cotton which under a planned system it should be possible to consume in India itself, thus making possible even a greater supply of clothing to the people.

Then take the case of the Jute industry. We are supposed to have turned the corner and just now are working on a fair margin. But could it be said that the position is healthy? We are working with 15 per cent. of our looms sealed and only 4 days in a week, thus curtailing production by nearly 40 per cent. Not only have thousands of workers been thrown out of employment, but their wages also have been reduced on account of curtailed production. While this is the condition of the old Mills who are producing only 60 per cent. of their total capacity, their agreement to work on a restricted scale is bringing into existence new Mills many of which are working double shift and making good profits. The new Mills are multiplying in number. The crisis is bound to come to a head some time and if the demand from foreign countries does not expand, then the trade has to be shared between the existing Mills, old and new, which may mean a curtailment of their production by 50 per cent. as against the existing 40 per cent. What can be a greater waste of capital and energy than this? Why should money be blocked in an industry which is already idle to the extent of 40 per cent. of its productive capacity? Under a planned system capital would be diverted into channels where it is more urgently required and not allowed to be wasted through duplication or other causes. Taking the case of raw jute, we find that we are exporting nearly 40 lakh bales which is manufactured in other countries and then consumed. If we



work our Mills. double shift we can consume all the raw jute produced in India and thus wrest the territory at present held by foreign manufacturers, providing not raw but manufactured jute to those who are at present manufacturing a part of their requirements themselves. Whether it is a practical proposition has to be investigated. But it has not been done so far because there is no authorised agency to act in this behalf.

Instances could be multiplied. We are producing things which we cannot sell while there is a great scarcity of things badly wanted. There are millions of unemployed wanting work and there are millions who have to go without having some of the most elementary needs of life satisfied. Can't we provide employment to those who are unemployed and thus feed the unfed, clothe the unclothed and shelter the unsheltered? We can, only if we have a plan and the necessary authority to execute it.

### What We Should Aim at

But let us clearly understand that there can be plans and plans. Plans after all can only be based on ideas. The word Planning in itself can have no attraction. It has become popular on account of its good associations, but planning can be for good as well as for ill and therefore unless we are clear about the goal and the ways of reaching it, the glib talk on the subject might lead us and the country astray. If we go to our architect with vague ideas and ask him to make a plan, he can do very little for us. To obtain the necessary help we have to tell him the kind of house we want—and the cost at which we want it. The expert can then produce a sketch which could be discussed, revised and adopted. In the case of National

Economic Planning too, we have to work along the same line. But I should like to say this that we do not want experts from outside to tell us what plans we should or should not have. If we in India do not know our own problem, then I maintain no one knows it.

First of all we have to decide what sort of social conditions we would like to see established. What is the standard of living we should aim at and what should be the methods which we must employ to achieve it? Let us first deal with the question of the standard of living.

The object of Economic Planning should be, in a layman's language, to bring about maximum prosperity with a reasonable amount of effort. But there is a limit beyond which the standard of living cannot be raised without adopting unjust means. And as being a subject nation, we realise this truth more keenly than anyone else, we do not aspire to any unduly high or luxurious standard of living which can be attained only through exploitation, in one form or another, of the labour of others. India is a subject nation and she has no design to subjugate others. She cannot, therefore, afford to have an unduly high standard of living. Those who think that India, without any colony to feed or slave for her, can attain the standard of western countries, are labouring under a gross illusion. We can depend only on our labour, which means that a standard of living which amounts to economic parasitism must for ever be ruled out of our thoughts. At the same time, I have not the least doubt that we can have sufficient to meet all our requirements, with ample leisure for recreation. Our primary needs are two decent square meals of sufficient



nourishment, say, of well-balanced 2,000 calories\* per head per day, with plenty of vitamins, so far as food goes; sufficient clothing, say, about 55 yards per capita, and sufficient housing accommodation to shelter us. And all this we can have without much ado by our own exertion if national effort is directed in the right channel.

### Our Present Low Standard

The present supply of grains and cereals comes to about 9½ chatacks per capita per day. If we take away from it the quantity required for seeds and cattle and also make allowance for wastages, etc., barely  $\frac{1}{2}$  seer per head per day would be available for human consumption. As there is no data available relating to the available supplies of meat, fish, vegetables, fruits and dairy products, it is not possible to say what amount of deficiency there exists in the total amount of our food supplies. But if there is any deficiency, it will have to be made up by producing more. It can be said, however, even in the absence of figures that we are suffering very badly from the deficiency of dairy products and fruit and vegetables. Our sugar consumption comes to about 16 lbs. per head per year which undoubtedly is low as compared with our physical needs. In other countries, it ranges between 60 to 120 lbs. per head per year.

Coming to cloth consumption, it comes to about 16 yards per capita per annum including hand-loom products—a quantity barely enough to cover one-fourth of the body. Even with the temperate climate in many parts of India, one cannot do with less than 2 pairs of dhoties, 6 kurtas, 6 underwears, 2 bedsheets, 2 chadars or cloth for quilt, caps and other things which require

\* The Bombay Plan figures were 2,500 calories (making allowance for wastage) and 30 yards of cloth (based on the National Planning Committee's estimate of the minimum requirement).

at least 55 yards per head. Thus the total requirement amounts to 19,250 million yards. Our Mills at present can produce 3,600 million yards, and hand-loomers are producing 1,700 million yards, or a total of 5,300 million yards. Our requirement is nearly 4 times our present productive capacity, but the gap can be easily filled if the problem is tackled in the right spirit and along right lines. The total quantity of cotton required would be about 10 million bales and our production in the year 1927-1928 had reached 60 lakhs of bales. The area under cotton amounts to 23 million acres at present and with 6 million acres of land made available by the Sukkur Barrage Scheme and other adjustments such as better manuring, etc., it should not be difficult to produce the required quantity of 10 million bales. In the absence of national planning we have been frantically eager to sell 15 lakh bales of cotton to Japan, though as a matter of fact we are not yet able to grow all that we actually require.

So far as the housing problem is concerned, it may be said that the necessary material being available in the vicinity of every cottage, it is only a question of finding sufficient leisure for the masses to undertake the work. There will be many other requirements to be met. Education in itself is an important problem. But if the main needs are satisfied and the necessary leisure afforded, other things will automatically follow.

### Some Elementary Principles

But a mere re-capitulation of our main requirements would not suffice. A little more thinking is necessary even at this stage. The first step in planning should be to lay down certain principles for guidance, and one of these obviously must be that self-sufficiency is not to be attempted except where the



conditions are decidedly favourable to it. It is no use trying to produce a thing in respect of which the country enjoys no natural advantages or for which no ready market exists. Fortunately for us Cloth, Sugar, Steel, Cement, Tea, Jute, Paper, etc., fall under a different category. So far we have not infringed the natural law in this respect and have not built any industry along artificial lines as England and Japan have done in many cases—a thing which makes them dependent for supplies of raw materials as well as for sales of finished products on foreign countries. If we have sinned, we have sinned in a different direction. Even where we have got both raw material and a ready home market, we have failed to take advantage of our favourable situation and have been depending so far for our supplies of finished products on foreign markets. This anomaly has to be stopped once for all.

Roughly, we shall have to adopt measures (1) to increase our production all round so as to meet the maximum of our total requirements from home-made products where we can do so advantageously, (2) to import the balance which could not be produced advantageously at home, (3) to export against imports and services rendered, commodities which we cannot consume at home but for which a ready market in foreign countries is assured. But no one should run away with the idea that with increased self-sufficiency our import trade would dwindle or vanish. In fact, I look forward to a time when under Planned Economy the volume of our imports will be much larger than what it is at present. I am not against the policy of buying and selling more abroad. But it would be foolish to buy more abroad when you can produce the articles yourself. Similarly, selling more abroad when you can consume the commodities yourself is nothing



but lunacy. When our standard of living rises and our productivity increases, we shall have to purchase abroad many new articles which we are not accustomed to consume at present. Our foreign trade eventually must expand. Thus our dreaded self-sufficiency will not be a hindrance to Foreign Trade. There will be a division of labour between the producers at home and the producers abroad. For instance, I doubt whether it would be necessary for us to become self-sufficient in respect of machinery, motor cars, various kinds of apparatus and appliances, certain kinds of woollen, silk and cotton fabrics, certain dyes, chemicals, mill stores, etc. The list is by no means exhaustive. Mineral oil will have to be imported in increased quantities. Once we have planned what we should produce and what we should import and export and once we have made a careful division of labour between the producers at home and abroad, trade pacts with foreign countries will be more scientific to the mutual advantage of both the parties. We would not then have to enter into pacts like the Indo-Japanese Pact under which we bound ourselves to purchase 400 million yards of cloth against sales of 15 lakh bales of cotton. The iniquitous nature of this bargain, from the Indian point of view, can be realized from the fact that while the production of 400 million yards of cloth would require the labour of about fifty thousand men, the production of 15 lakh bales of cotton would require the labour of men ten times that number. Such Pacts should only be made when we must buy something from abroad because we cannot produce it and we must sell something because we cannot consume it. Otherwise the barter becomes inequitable as in the case of this Pact. Of course, the Commerce Member could have not done better when he had to work in the absence of any Plan.

### Weapons to be Used

Import and export tariffs, subsidies, trade pacts, the most favoured nation treatment, etc., are the weapons which will have to be brought into use for directing our production and our imports and exports into the desired channels. It should not be forgotten that in order to raise our standard to the desired level we shall have to take long strides in production, not only industrial but also agricultural. In the industrial sphere there may not be any need of direct encouragement. Protective tariffs and the increased purchasing power of the masses will take care of the job, but in the case of agricultural produce such as cereals, oilseeds, fruits, dairy products, etc., some big concentrated effort will have to be made to improve the situation, and nothing short of some sort of subsidy will be sufficient to induce the producer to produce more. And a sufficiency of food-stuffs is most essential for the maintenance of national health. No cost for the achievement of this object can be counted too great.

### The Provincial Sphere

Here our task would of necessity assume a provincial character. A change in land laws, liquidation of rural indebtedness, scaling down of rents if prices are not to rise,—and prices cannot rise without inflation; I am suggesting these alternatives in order that even without touching the exchange we may reach our goal. Establishment of agricultural banks to advance loans and direct subsidies in some form to dairy and fruit industries, special measures for increasing agricultural production, substantial prizes for cattle, new laws for the regulation of cattle-breeding making it necessary to take licenses for maintaining breeding studs and



such other measures will have to be taken for promoting production in fields.

### **Whence is Money to Come ?**

Critics might ask how we are to find money for all these reforms. To them I would reply that they are thinking, from the force of habit, of money in terms of gold and silver and of paper. But even if money is to be counted in such terms, there is no dearth of it in India. There are 53 crores lying in the Gold Standard Reserve which could have been used for the economic advancement of the country rather than keeping it invested where it does not benefit India in the least. Similarly if the gold in the Paper Currency Reserve is revalued at the present price of gold, it will show a large profit which could be used for the economic uplift of the country. But as I have maintained, real money is not silver or gold, but human labour of which we have plenty in India. In this respect perhaps we are one of the richest nations in the world.

I wonder why those who criticise the Indian habit of hoarding the precious metals view with equanimity the hoarded Indian labour lying dormant and unutilised which properly used can take light to every home. The question of capital therefore should not frighten us in the least. Money spent will flow back to Government's coffers if the spending is done on a proper plan. This secret has been realised by most of the countries which have planned. In order to create more employment Herr Hitler has recently announced that he is going to spend 1,050 million marks on roads and various other development items. One hundred and fifty million marks out of this will go towards matrimonial loans. What a relieving change in the ideas about birth-control! America too recently decided to spend 1,677

million dollars on public works. And she also decided to have a deficit budget of 9,000 million dollars during the next two years. Those who make a fetish of balancing budgets can learn something from America.

I as a businessman fully appreciate the value of balanced budgets. But there are times when balancing the budgets in cottages becomes more important than balancing the Exchequer's budget. Mr. Keynes, the eminent economist, too suggests expenditure on public works as the most effective means of bringing about recovery. And from the recent speech of Mr. N. Chamberlain it appears that even Conservative England is going to initiate a large housing scheme for the relief of unemployment. Those who bring in the question of capital simply want to dodge the issue. The problem in India at present is only of mobilising its idle labour or its idle capital as I should like to call it, and making it produce things for those who want them. The problem is a simple one, and yet its solution demands a gigantic effort on the part of its Government and the people, with a bold policy and a determination to succeed.

### What We Should Guard Against

We must guard against one thing, that is, over-centralisation of production or the creation of any large disparity between the upper and the lower strata of society. India is mainly an agricultural country and it will continue to be so. Any scheme that may be formulated ought to take into consideration the peculiar conditions of India. We do not aspire to build industries artificially on the strength of our export trade. Whatever industrial development there will be, will have to depend entirely on the home market. Therefore even when we have developed our industries fully to



satisfy our total needs, they will represent nothing more than a tiny little spot on the map of India. If we then centralise the industries in any one area or one province which has no special natural advantages, we would be disturbing the rural life, causing waste of labour and creating industrial unrest. Probably in this respect, the model should be the sugar industry which is mostly located near the fields. It is not desirable that a man from U. P. should have to go to Calcutta or Bombay to find employment. Any industrial expansion should therefore be in rural areas, well-distributed and never too much centralised. The fixation of zones by Government may bring about an even distribution of industries.

We should not forget that the success of a Plan which contemplates increased production depends entirely on a parallel increase in the purchasing power of the masses. If there is no wherewithal to buy, then increased production will be simply decorating the warehouses of the producers. We shall, therefore, have to take care when we begin to produce more that the extra wealth so created finds its way direct to the cottages and does not form itself into a stagnant pool. If it does so, then the whole scheme is bound to collapse.

This is what happened in America which was largely responsible for the creation of "poverty in plenty" there. The fact was probably fully realised by President Roosevelt who solved the problem in America not by increasing national wealth but by tapping the idle money by various means and putting it at the disposal of those who wanted it. Depreciation of the value of money, generous labour laws, increased wages, direct help to farmers, public works expenditure and unbalanced budgets were some of the means adopted by him. But the one object of all those



measures was to narrow down the disparity between the highest and the lowest, and he brought about this change with the ready assent of those benefited as well as those penalised. The penalised readily assented to this action because they knew that it was in their interest, for there is no surer method of inviting Bolshevism, communism or anarchism than to create an unhealthy disparity between the higher and the lower strata of society. Disparity there will be, so long as enterprise, venture, intelligence, honesty, thrift and all such virtues are allowed to have free play and even when these have been destroyed, disparity will remain though probably under some other name. But there is a limit to everything and to create an unnatural and unhealthy disparity is to invite the surest disaster. And thus it could be said to the credit of President Roosevelt that he saved America from a communistic revolution by tapping idle capital and distributing it for the good of all.

Fortunately in India we have not so far such a large disparity. The number of people paying income-tax on incomes of Rs. 10,000 or upwards totalled only 35,000 in 1931-32, a drop of 11,000 from the figure of 1929-30. This shows our poverty. Only 1 in ten thousand has an income of Rs. 10,000 or more. But when we take a gigantic step to increase the country's wealth, there is danger of a great disparity being created, if we do not guard against this from the very beginning. In fact, before any disparity is created, the whole plan will collapse because Planned Economy under which every citizen is to have a higher standard of living and unhealthy disparities are contradictions in terms. If we, therefore, desire the Plan to succeed, the creation of unhealthy disparities will have to be guarded against.

The best safeguard is provided by equitable taxation. When I say this I hope I shall not be misunderstood. Our Government is quite capable of tearing words from their context and using them against us in imposing new taxation without fulfilling the other conditions. Friends here may charge me with committing myself to new taxation. Nothing of the kind. I make it clear that I am not in favour of any new taxation under the existing circumstances. But when we create new wealth largely with the help of funds going out of Government coffers, you will agree with me that the money must flow back in course of time. And it could flow back only if those who are benefited are properly tapped and not allowed to keep money in an unproductive form. Besides, if the money goes out to create wealth for the masses, it must be allowed to fulfil its function. Any creation of an unhealthy disparity will not allow it to do its function. If, therefore, with proper planning new taxes are imposed to allow the free movement of money and also to check the unhealthy disparities, I hope, no one here will grudge it. This is all that I seek. I think, that in the interest of the masses as well as in the interest of the business men, no one can grumble at this. I hope I have left no room for misunderstanding.

### Delhi and Provinces

Before I conclude I wish to say a word or two by way of suggestion about the Government's move. As you all know, the Finance Member is inviting a Conference of the Provincial Representatives to discuss the programme relating to the economic uplift of the country. So far so good. But may I point out that while the provinces will have to be responsible for the administration of the scheme if one is prepared, they



are not in an independent position to prepare one themselves. First of all, there is the question of finance which the Central Government alone can solve: Secondly, comes the question of planning production as well as imports and exports. Weapons to be employed to that end, i.e., tariffs and bounties and the initiation of Trade Pacts, etc., belong to the armoury of the Central Government. Thirdly, comes the question of division of labour even amongst the provinces themselves. Here again the Central authority alone by acting as a co-ordinating link can adjust the claims. Then there is the Railway and Taxation policy and last but not least is the question of some amount of uniformity in legislation and action. I, therefore, maintain that the source of inspiration could be the Central authority alone and not the provinces. Leaving the things to the provinces will result only in a postponement of the issue. After all, what could the provinces with their limited resources and power do?

### **From Darkness to Light**

Sir, I have done. Such suggestions as I have made may not be free from flaws or shortcomings, but they are meant only to indicate the directions in which we must move if we want to plan for the future. I realize that abler men could have done better justice to the subject, and made more helpful suggestions. But a stage comes when after having made the most profound analysis and discussed every aspect of the question we ask ourselves: Whither does all this lead? And then quite naturally there comes over us a feeling of despondency, even of despair. I am sure however that none of us will allow ourselves to be overcome by such a feeling, for those who have faith in God, in the righteousness of their cause, or—to put it no

higher than this—in “the inevitability of gradualness” know that darkness has to make room for light and that the Dawn cannot be indefinitely postponed.



**ECONOMIC PLANNING\***

It has been a happy thought of Dr. P. S. Lokanathan to bring together in this form the special articles on Post-war Economic Planning which he published in the *Eastern Economist* a short while ago. I hope this pamphlet will be the forerunner of a series which will provide our public with some substantial and wholesome food for thought. Dr. Lokanathan is to be congratulated on the effort which the following pages represent. It is true they do not contain ready-made plan or even its rough outline. But they contain enough to stimulate thought and discussion, to give us some idea of the future that we would like to build and to tell us what some of the implications of that planning and building are. Dr. Lokanathan has rendered a distinct service by drawing our attention to the gigantic task that awaits us. It is up to the nation to take it up.

That a country can be potentially rich and yet, in fact, miserably poor is truer of India than perhaps of any other country. India is a charming country. Its land is fertile; its forest resources are ample, covering an area equal to one-fifth of her cultivated area. On its surface resides one-fifth of the human race. India has one-third of the world's cattle population. Though this is poor in quality, it can, when improved, convert

\* Foreword to "Principles of Economic Planning" by Dr. P. S. Lokanathan (1943).

the country literally into one flowing with milk and honey. The country is extremely rich in mineral resources. Her deposits in coal are estimated to be 60,000 million tons while we are producing only 28 million tons a year. India has the largest reserve of iron ore next to the U.S.A. and the largest reserve of manganese in the world. The same in respect of mica. Three-fourths of the mica supply of the world comes from India. In other mineral resources too we are in a very favourable position. And yet in production we are at the bottom of the ladder in almost every article, as could be seen from the following tables:—

### Agricultural Production Per Acre

(lbs per acre)

	India	U. K.	Japan	U. S. A.	Australia	Canada	Egypt	Italy
Wheat	630	1,860	..	548	714	912	..	..
Rice	728	..	2,035	1,771	..	..	2,091	3,253
Barley	650	1,488	1,500	1,200	1,250	1,334	1,440	672
Cotton	102	..	..	141	...	..	352	..





### Great Potentialities

In potential water power, the resources of India are enormous. It is estimated that the total world resources amount to 410 million kw. out of which India's share is estimated to be 27 million kw. In fact, it may be much more, since it could not be said that investigation about India's potential water power is complete. But while America produces 12 million kw. of hydro-electricity, India produces only 0.5 million kw. While America produces electricity from water and steam to the extent of 160,000 million kwh. H.P., India produces only 2,167 million kwh. H.P. This is India—rich and at the same time, so poor.

If wealth means labour and resources, then India has plenty of both. But with one-fifth of the human population, we do not possess one-fifth of the total world income. Because the hands that are there and the resources that they have are not efficiently utilized.

There can be land and there can be men to till it. But until it is tilled, manured, sown with good seeds, irrigated properly and until the crop is harvested, the grain milled and the flour baked, the stomach does not get bread. There are so many processes that have to be undergone before the bread is actually produced. The same applies to mineral resources, to hydro-electric resources and to so many other resources. They are all worthless until worked and utilized.

### So Many Ifs

Labour and resources are like the negative and the positive of electricity which do not generate power until they contact. In India this contact is yet to be established, and hence we are poor at present. The day 800 million hands apply themselves with a plan to the exploitation of our resources, the poverty will dis-



appear. The problem is simple but then it bristles with so many "ifs". The task of the future generation will be to overcome these "ifs". And if—again an "if"—we surmount these "ifs", the goal will be ours.

The Indian worker is by temperament a hard-working fellow. He works hard but gains little. To step up production he needs better seeds, better ploughs, and better cattle. He needs a larger holding of land; freedom from vagaries of the monsoon; more fertilizers; better marketing facilities for his crop; more education and better health. He also needs speedy justice; better roads and, above all, more leisure. He can get all this.

There is plenty of coal to generate power for all sorts of needs. There are hydro-electric potentials which if properly harnessed could create a large amount of energy for cottage and large-scale industries, besides creating new sources of irrigation for farms. There are all sorts of raw materials waiting to be converted into manufactured goods, more clothing, more housing material and other consumer goods of all kinds for which there is a crying need. There are mountains of resources and millions of hands to produce goods on the one hand, and a bottomless pit to swallow all kinds of consumer goods on the other, if only they can be placed within the reach of the consumer.

Why cannot things be set right? It is beyond any one individual's capacity to rectify the position. The task is one which could be done only with the united will of the whole nation.

For harnessing the resources and labour of the nation to produce more, and to feed more, there is needed the appropriate political authority. The absence of this upsets many of our apple carts.

No foreign government can be fit to undertake a plan for social uplift. And without political authority

we may undertake such a gigantic task, only to fail. So political freedom is the first essential; not an end in itself, but a means to the end. With the advent of national government our difficulties do not end. Our task then only begins.

The first step after the advent of the national government would be to plan the future in stages. And then for the plan to succeed we shall need a long term of security and stability. We shall also need a competent executive to work the plan—a body which knows the job and is fully efficient and honest and is not influenced by the changes in the government. If we succeed in securing all these factors, then we reach the goal.

### **Russia and Japan**

Russia is cited as an example of what a country can achieve within a short time. Yet, the fact is that the Fates were not kind enough to Russia. After the liquidation of the Tsarist regime, nearly 10 years were wasted in fighting external and internal weaknesses. The first five-year plan was launched in 1929. It brought forth extremely satisfactory results. But what was earned had to be re-invested for increasing the income further.

When the second five-year plan was undertaken, the dark clouds of international uncertainty had begun to rise above the horizon of Europe. The plan had, therefore, to be modified to meet the requirements of war more than of peace and failed to affect favourably the economic life of the people to the desired extent. By the time the third five-year plan would have come into effect, the guns had commenced their infernal belch. Thus all that was built in nearly 20 years was destroyed with just one stroke.



Japan seems to have had better luck. She was weak and backward as late as the middle of the last century. When Commodore Perry entered the Uraga harbour with four mighty warships, he must have known of his relative strength since he carried a mighty fleet in one pocket and mechanical toys in the other to give to the country the treatment that its demeanour warranted. What nation would think of exacting a treaty from another nation by such a simultaneous exhibition of arms and toys unless it had a very poor opinion of the other nation's resisting power?

This happened in 1854. In 1867 Emperor Mutsuhito came to the throne and he ruled till 1912. He gave his people or rather nature gave him the security and the stability which made it possible for him to give Japan education, reforms and economic uplift. It enabled him to plan Japan's economics on a proper basis and to rebuild its army and navy in a manner which made Japan within a short span of thirty years one of the Big Four or Five. Subsequent history is irrelevant.

It could thus be seen that while we need a plan and a national government to execute it, we also need security and stability among other things for full success.

It may not be inappropriate to quote the **Shree Bhagawad-Gita** even in an economic discussion:

"Hear from me, Long-armed Lord! the makings five  
Which go to every act, in Sankhya taught  
As necessary. First the force; and then  
The agent; next, the various instruments;  
Fourth, the especial effort; fifth, the God.  
What work soever any mortal doth  
Of body, mind, or speech, evil or good,  
By these five doth he that."

The force, the agent, the instruments, the special



effort, and last but not least, Providence. But God helps only those who help themselves. Let us, therefore, plan, strive, pray and hope for the best.

### III

#### THE BOMBAY PLAN\*

It is really heartening to note that the non-official post-war plan should have aroused such keen interest and enthusiasm all over the country. It must be admitted that the layman has no intelligent conception of a plan and its implications. The enthusiasm displayed, therefore, may be taken only as a sign of impulsive sympathy. It reveals all the same that the demand for converting India from a poor into a prosperous country is much stronger than we had anticipated.

And it is only natural that this should be so. The poverty of India is proverbial. The people have got neither sufficient food to eat nor sufficient cloth to wear nor adequate accommodation to live in. They are half-starved, ill-clothed and living the life virtually of a dog or a cat. In education they are most backward. The health of the people is extremely poor. Mortality rate is extremely high. Out of every 1,000 children born, 167 are dead before they achieve the age of one year. The average income of an Indian is about Rs. 65 against Rs. 980 of an Englishman. The expense of an average Englishman on cigarettes alone is as much as the total

\*An address delivered at the Annual Session of the Federation of Indian Chambers of Commerce and Industry, held on March 4, 1944. The reference here is to what came to be known as the Bombay Plan prepared by a group of industrialists, including Mr. Birla. It was published in two parts—the first part dealing with the problem of production and the second with that of distribution.

yearly income of an average Indian.

This is the lurid picture of the poverty of an Indian. And yet there are plenty of resources in India in the shape of land, water, forests, mineral deposits and, above all, plenty of hands and brains that cooperating under proper planning can convert the want into affluence and the poverty into prosperity. It is, therefore, only natural that there is so much impatience in the country over its miserable state and an intense desire to terminate it. The plan produced by the non-officials, therefore, may be taken as the expression of the people's will and resolve to end their present plight.

What is this non-official plan?

### **No Blue-print**

As we have already said in our Report, this so-called plan is neither a plan nor a master plan—as some have called it—in the sense of a blue-print. There are a large number of gaps that require to be filled up. There are many details that will have to be worked out and many modifications that will be necessary before and during the time the plan is put into execution.

And then, there will be many mistakes and many mishaps—some of a very serious nature—that will be committed during the execution stage. All this, any country that plans will have to put up with.

After all, it is a gigantic task and as such could not be completed without mistakes and mishaps. Its authors know their limitations too well to claim perfection about their proposal. And as such, all that they have done is to place before the country a rough outline of what they think to be the target for the next fifteen years and the method by which they suggest the goal could be achieved.



What is the target?

### The Target

It is roughly this: that the people in this country should be ensured a minimum in respect of food, clothing, shelter, education, health and such other social matters. That they should get about 2,800 calories of balanced food per capita, 30 yards of cloth per man and decent accommodation of 100 square feet per head, guarantee of good health by proper provision of medical facilities in the shape of hospitals, dispensaries and maternity hospitals, etc., water and sanitary arrangements, adequate education and reasonable leisure. We estimate that if the present income that is about Rs. 65 per capita is raised to about Rs. 130 per man, it should be sufficient to cover all these needs.

This is our target.

And we think that if the country plans to invest about Rs. 10,000 crores in the next fifteen years, partly in agriculture, partly in industry and the rest in communication, health, education and other social activities, it should be possible to achieve the object. We have in some detail pointed out on what objects this expenditure of Rs. 10,000 crores should be distributed. We have also in the plan suggested methods to get this huge sum of money. This is the rough outline of our plan. I need not elaborate the details since they are already in the pamphlet that we have produced.

It is gratifying to note that this plan has been received throughout the country with great enthusiasm. But there has been some amount of criticism on some of its aspects. On such an important subject, it is inevitable to have differences. The fact that the plan has been well received by the public and the press has given a great encouragement to its authors.

But I will now come to the criticisms.

### Criticisms

I suppose I need not take seriously the suggestion that all planning and good thoughts should be put into cold storage until the leaders are released. Such a thing will be nothing short of a suicidal policy. Nothing can please the leaders better than the fact that their countrymen outside were seriously discussing and making a plan for the betterment of India—an ideal which the leaders have lived all their life for. After all, the pace of our march towards our cherished goal, too, will depend on the amount of constructive work that we are able to put in.

We have placed before the country certain ideas to stimulate thought for the construction of a national India, prosperous and free. We maintain that it is possible to raise the standard of our people only if we moved towards our target with a determination, perseverance and with a united mind, a united voice and a united rhythm. To decide to do is to finish half of the job. To move is to complete it. To talk of planning while the leaders are in jail is not a sin but a constructive act which should only be welcomed by all those who live for the service of the country.

There has been another criticism of the plan, not, of course, from any responsible quarter, that it is a scheme sponsored by capitalists. I suppose nobody would take this criticism seriously. A plan cannot become good or bad simply because of the supposed caste of its authors. Every idea should be tested and then accepted or rejected on its merits, irrespective of the caste or creed of its authors.

None in this world can be free from the tyranny of this or that "ism". But if India is to advance, prosper



and progress and occupy its proper place among the important nations of the world, then the only "ism" that matters is an "ism" which employs the best in us, viz., the talents, the genius, the wisdom, the experience and the skill and energy of every section of the society for the purpose of promoting the largest real good of the largest India. Any "ism" that leads towards this object is good, the rest is all "rejection." I don't believe that any "ism" that does not see the good in other "isms" can last long.

That, however, is only by the way. I am not pleading here for any "ism". I would at this place only ask every one to judge the plan on its merit and not on any other consideration.

I will now come to some concrete criticism. First of all, I will take up the suggestion advanced by some that India is an agricultural country and, therefore, what is vital is only the progress in agriculture. They say: "raise the standard of the farmer and the rest will take care of itself." The greatest exponent of this argument is Sir Tracy Gavin-Jones and perhaps the Government too is of the same view because I have noticed the Anglo-Indian press leaning towards it.

Sir Tracy is one of those few Englishmen who are accustomed to enter deep into such subjects and talk logic. One cannot, therefore, brush aside his view. But I may submit that what Sir Tracy states is only the incomplete truth. He would be perfectly correct if his idea is to give just a push to agriculture for the purpose of creating greater purchasing power in industry's interest. To industry, from its narrow selfish point of view, such a plan would be a most convenient arrangement. But not to the country as a whole.

Our idea is not to create more purchasing power for industry, but to utilize all the resources of the



country in a planned way in order to raise the standard of the people not by a bit but by 100 per cent. at least. This object could not be achieved by mere agricultural advancement.

But have we ignored agriculture? We have, in fact, suggested that in order to feed the country adequately and produce enough raw materials for its industries, agriculture will have to produce 130 per cent. more than it is doing now. This would give the country roughly Rs. 1,500 crores per year or another Rs. 40 per capita assuming the population to be stationary. If the population increases, as it is expected to do, then the extra forty rupees per capita would be affected in inverse ratio to the increased population. Thus with 130 per cent. increase in agricultural production, with our increased population the income will increase merely by Rs. 28 per head. In other words, the present income of Rs. 65 will go up to Rs. 93, viz., by about 40 per cent.

But our target is much higher. Our aim is to raise our standard in the first instalment by 100 per cent.

Could we, therefore, achieve our goal only through agriculture? I suppose there could be no two answers to this question. Let us examine the position.

Suppose we expand our production in agriculture beyond our target of 130 per cent. What will then happen? It is clear we would not be able to consume our increased production at home. There is always a limit to the consumption of cereals, etc., however great be the prosperity. On the other hand, if we produced more money crops, we would have to create more industries to consume them or we would have to rely for the sale of our surplus on exports. Suppose we are unable to sell our goods in foreign markets. What then? We will have to curtail our production.

So we will have to revert to the old position.

We should not, therefore, be at the mercy of the foreign buyers as we have been in the past by merely concentrating on agriculture and thus frustrate all our efforts to be prosperous. We must plan in a manner that our prosperity will depend not on the sweet will of our purchasers abroad, but on our own efforts and policy.

### **Burden on Land**

India is a country of unemployed. It is so because the land cannot really maintain the 70 per cent. of the people that are now supported by agriculture. The result is that though 70 per cent. work on fields none gets a full-time job. Therefore, as the burden on land increased, the poverty too intensified. In 1891 the field employed only 61.1 per cent. of our population. Now it employs about 70 per cent. This is the main problem that we have to tackle.

What is the position in other countries? You look at the history of every prosperous country and you will find that as the ratio of its agricultural population went down, its prosperity increased in the inverse ratio. U.S.A., France, Germany, have all achieved prosperity by diverting their agricultural population from farms to factories. Even Japan which employed 85 per cent. of its population on fields in 1850 reduced it to a percentage of 50 by 1930. And up went its wealth. I have no doubt that we too shall have to travel the same road.

It was mentioned by the *Eastern Economist* the other day:

"New Zealand would occupy only 6.4 per cent. of her labour force to supplying its entire population with a scientifically arrived at optimum diet,



Australia would occupy 9.7 per cent. of her labour force."

This only shows what a great scope there is for reducing the farm population and diverting the same to other fields. The farm population at present is producing very much less per capita for the simple reason that they have got nothing else to do and so are compelled to work inefficiently and yet remain confined only to agricultural production.

If we accepted the figures estimated for New Zealand and Australia and assumed that we too could attain the same per capita production as in Australia and New Zealand—of course, with most modern equipment—then, in fact, we would need perhaps not more than 20 per cent. of our population to produce all our agricultural needs. That perhaps is too high an ambition for us and perhaps undesirable too. We are, therefore, providing for a much larger population to work on farms. In any case, one thing is clear. Without diverting the agricultural population to other fields, there is no chance of the country raising its standard of living.

To talk, therefore, of concentrating on agriculture is to shirk the issue and prolong the agony. The issue is this. India's standard is to be raised by 100 per cent. and it simply could not be done by merely improving its agriculture. In fact, it is impossible even to achieve the target of 130 per cent. expansion in agriculture that we have suggested if there was no industrial expansion side by side to absorb the agricultural production.

While, therefore, we are equally for agricultural expansion and we have laid enough emphasis on this, we are sure that unless industries too are developed adequately, neither the agricultural expansion nor the rise in the standard of the people is possible.



### Problem of Finance

But what has scared most of our economists is the question of finance. We have suggested an investment of Rs. 10,000 crores within a period of 15 years and we are glad that while this astronomical figure itself has failed to give any shock even to the most orthodox economists, it has, all the same, created an uneasiness in the minds of some who are, if I may say so, rather obsessed with the word "inflation."

We have estimated that a sum of Rs. 10,000 crores will have to be invested in 15 years for the purpose of raising the standard of our people by 200 per cent. if there is no increase in population, and by 100 per cent. if there is increase in population. How do we propose to find this finance? We expect to get Rs. 300 crores from the hoarded wealth, Rs. 1,000 crores from our sterling balances and Rs. 700 crores by borrowing abroad. This gives us only Rs. 2,000 crores. The balance of Rs. 8,000 crores has still to be found.

Whether you call it a favourable trade balance or savings of created money, ultimately it comes out of our own production and thus the whole sum may as well be called a saving. The question, therefore, is: Is India in a position to save Rs. 8,000 crores in 15 years or 533 crores per year? I say 'yes'. In war we have saved so much and more. But in peace, when under the plan, people labour for an ideal and when every year brings in new wealth and happiness, the saving of 533 crores per annum becomes comparatively an easy matter.

India's income is just now about Rs. 2,200 crores per year. Suppose during the period of the plan it is raised to an average of Rs. 3,300 crores. This is a very modest figure which should not be difficult of achievement. The estimated peak income will be Rs. 6,600 crores and the present income being Rs. 2,200 crores, the average

must be much higher. In any case, the saving needed to find Rs. 533 crores a year is something like 16 per cent. of the average income of Rs. 3,300 crores.

Other countries like Japan and Russia have been able to save in the past up to 20 per cent. of their income. Even the European countries during the period of their construction have saved as much as 19 per cent. of their earnings by producing more and consuming less, relatively though not absolutely. In view of this, there is no reason why India should not be able to save, without lowering her present standard, at least 16 per cent. of her total income for the purpose of re-investment.

Even with this saving of Rs. 533 crores a year, the surplus for consumption during the plan-period would be more than India's pre-plan income. Her pre-plan income is 2,200 crores. If the plan-period average be estimated at 3,300 crores, deducting the saving of 533 crores out of it, we still have about 2,800 crores at our disposal.

From 1900 to 1930 India has maintained a surplus in foreign trade to the tune of anything between Rs. 30 to 40 crores worth of goods every year and has also imported gold and silver of several crores a year. This represented nothing else but India's savings, though we have been a poor country. Besides this, there have been other savings too in other directions. With increasing production, an annual saving of 16 per cent., therefore, does not look like an impossible figure.

We might now look at this from another angle.

### **National Income and Savings**

Let us see how we propose to invest this 10,000 crores, and then calculate separately the possible return and savings under different heads. It is calculated



that if we invest 4,480 crores in industry, the annual net increase in national income would be about 1,900 crores, that is, there will be an increase of one rupee in the national income for every 2.4 rupees invested. In agriculture we propose to invest about 1,240 crores in 15 years and expect an annual income therefrom of 1,500 crores. This means that for every 1 rupee that we invest, we shall get 1.20 rupees worth of new income. In other spheres, viz., communication, health, education, housing, etc., the income would be very small. But we have estimated about 900 crores from all these sources.

Let us now on this basis calculate the income from agriculture and industry and other sources to find out how much saving it is possible for us to secure for re-investment out of the new wealth that will be created.

In industry, we are spreading our investment on basic and also on consumption goods industry. As you will see from our programme, we are suggesting an investment of Rs. 3,480 crores in basic industry and of only Rs. 1,000 crores in consumption goods industry. I have roughly estimated that the total return in the shape of national income from all these sources, that is, agriculture, basic industry, consumption goods industry and services, will be approximately as follows:—

Rs. 7,400	Crores from Agriculture
Rs. 5,600	„ „ Basic industry
Rs. 2,300	„ „ Consumption goods industry
Rs. 3,700	„ „ Services, etc.
<hr/>	
Rs. 19,000	„
<hr/>	

It is not too much to presume that from agriculture and consumption goods industry and services we may



safely, on an average, draw 10 per cent. of the goods for the purpose of re-investment. On the other hand, since the basic industry will produce mostly capital goods and not consumption goods, we may be able to draw even up to 75 per cent. of the goods to go back for reproduction.

Saving is nothing else but the value of estimated labour that is spent but not consumed. If one looked at the problem purely from this scientific point of view, one could hardly make a distinction between the percentage of saving in basic and other industries. You cannot demand the basic industry labourer to consume only 25 per cent. of his labour and save the rest, while allow the labourer in other fields to consume as much as 90 per cent. But if one thought of the problem in terms of goods, then it would not be too much for us to estimate a saving of nearly 75 per cent. in terms of basic goods and a saving of 10 per cent. in agriculture and consumer goods to go back for reproduction, the latter either in its original shape or after it is exchanged for goods required for reproduction. Let us, therefore, now see what would be the result if we tried to estimate our savings in another manner, that is, in terms of goods and services.

Rs. 7,400 Crores	from Agriculture	10% of it	740 Crores
Rs. 5,800	„ „ Basic Industry	75% of it	4,350 „
Rs. 2,300	„ „ Consump.	10% of it	230 „
		goods industry	
Rs. 3,700	„ „ Services, etc.	10% of it	370 „

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Rs. 5,440 Crores.

To this if we add 10 per cent. of our existing income which is estimated to be about 2,200 crores per year, we save another 220 crores per year or 3,300 crores in 15 years. Added to the above, we get a total income

of 3,740 crores in 15 years for re-investment. Thus we shall see that after providing for a higher consumption during the period of planning, we can save more than 8,000 crores that is needed by us for investment in new enterprises for the desired benefits.

### Problem Explained

Let us, however, try to understand the implication of this huge investment in a layman's language and find out whether there is anything frightening about it. Immediately we begin to indulge in economic jargon, the man in the street throws up his hands in despair and gives up all effort to understand the problem. Therefore, it might help us to talk in simple language.

After all, this so-called economics of a country is no more than the economics of a family, though in a much magnified form. Here is a family of 40 crores that wants to produce more and consume more. It finds that if it is to consume more, it must produce more by 200 per cent. at the end of fifteen years. It also calculates that if it can produce that much, the family members will be able to double their consumption of goods as compared with the present position, after making full provision for the demand of the children that will be born into the family during the next fifteen years.

But then the question arises: how to produce 200 per cent. more. The family discovers that it needs new equipment and a larger amount of work from its members in order to touch the mark of the proposed production. For equipment they find they have some money partly in cash and partly in sterling. They plan to spend that money and also borrow some in the country where they propose to purchase the equipment. This helps them. But that is not enough. So they



decide to put in more labour to complete the work on equipment.

They had not enough to do so far and thus had plenty of leisure. They do not, therefore, find any difficulty in sparing some time for this new work. And when they take up the new work, they discover that only  $4\frac{1}{2}$  per cent. extra members of the family had to be employed for a period of fifteen years to complete this extra job. I ask: is there anything frightening about it?

Let us forget the words savings and created money and favourable balances. Let us find out what extra labour we are called upon to contribute to achieve our object, and the answer in a nut-shell is—you do not need to employ more than  $4\frac{1}{2}$  per cent extra of your population during the planning period to complete the new job

### **In Terms of Labour**

Why should we talk in terms of money alone? Why not express this Rs. 8,000 crores in terms of human labour? The sum of Rs. 8,000 crores that we have estimated will be spent on education, health, industries and so many other things must eventually assume the shape of human labour. For instance, for hospitals, schools, and also for the housing scheme money is spent on iron, cement, mortar, bricks and on salaries of engineers, etc. On education it is spent on the salaries of teachers, etc. In industry, we again spend on buildings and machinery and the supervisors' salaries, etc. Freight, railway transportation and a hundred and one incidental expenses will be incurred out of this Rs. 8,000 crores. But all this is ultimately translated into human labour.

Now, is it possible to estimate the average wage of



human labour employed as the skilled and unskilled worker, the doctor, the engineer, the teacher, the professor, the director of agriculture, the engine-driver, the guard and serviceman and all such people, which ultimately goes to make up this sum of 8,000 crores? It is by estimating this average wage that we can convert the money estimate into labour value and *vice versa*.

One may say that it is an impossible task. Yet, perhaps it is not altogether so. We could say that the average wage of the new hands employed would not, in any circumstance, be less than Rs. 25 per month or 300 per year. If this could be treated as a fairly representative figure, then it may be said that in order to spend Rs. 533 crores per year, we need the services of less than 1.80 crores human beings which is about  $4\frac{1}{2}$  per cent. of the population.

Rupees twenty-five per month, which I have estimated to be the average wage is a reasonable figure since this includes the wages of lakhs of teachers, 4 lakh doctors and an army of skilled workers. Perhaps the average wage of all those employed in the work of reconstruction would be nearer 30 than 25. If we, therefore, forget Rs. 8,000 crores and remember only the 1.80 crores human beings that will be needed to do the trick, the ratio of the new hands required to the average population of 1940-55 comes to even less than  $4\frac{1}{2}$  per cent.

### Employment of Un-employed

Of course, this  $4\frac{1}{2}$  per cent. population will be more productive than the rest and thus may represent 15 per cent. of the earning capacity of the total population. But I ask: is it too big a price to pay for this gigantic constructive work? Let us not forget that there is a great volume of unemployment at present in

India. In utilizing  $4\frac{1}{2}$  per cent. extra labour of our population for the new job, we are simply employing the unemployed. The question of inflation, therefore, hardly arises.

From whichever angle we may look at the problem, it comes to this that in the shape of human labour, we must be prepared to earmark  $4\frac{1}{2}$  per cent. extra of our total population. In the shape of money we should be prepared to earmark 10 per cent. of our income in consumption goods and 75 per cent. of our income in capital goods, or an average of 16 per cent. of our total income. I think for a gigantic plan like this, this assumption is not, in any way, frightening.

Let us not forget that this investment of Rs. 8,000 crores is in a way entirely out of our new savings because while our present income is calculated to be about 2,200 crores, under the proposed scheme, even after providing for this saving during the 15 years of planning period, there is likely to be a surplus of nearly 2,800 crores worth of goods per year at the disposal of the consumer. Thus, not only no sacrifice is proposed, on the contrary, what is proposed is a rising standard, more investment for a still higher standard in the shape of more work.

### Utilizing Sterling Resources

Then, in certain quarters, there have been some misgivings in respect of our proposal to utilize the 1,000 crores of our sterling resources now with the Reserve Bank of India. The latest addition to the list of sceptics is Sir Jeremy Raisman, the Hon'ble Finance Member. What will happen to the backing of the currency, he asks, if these resources are used up for the purpose of reconstruction? A layman could put such a question, but the Finance Member should not.



What is the backing of the note issue of the Bank of England? Before the war the total note issue in England amounted to 530 million sterling against which the gold backing amounted to about 264 million—roughly 50 per cent. And what is the picture now? The total note issue amounts to 1,075 million sterling against which gold held by the Bank of England, is, we are told, only 1 million, i.e., only 0.1 per cent. Would any one, therefore, say that the currency of England just now is not in a solvent position? And if the sterling has no solvency about it—and this is the conclusion which one would arrive at if one was to accept the logic of the Finance Member—then to keep sterling as a backing of the rupee surely is a dangerous thing.

I, however, do not believe that sterling's position is as bad as that simply because there is not sufficient gold behind it. Nor do I think the sterling backing of the rupee makes our currency's position in any way stronger. In our case, our note circulation just now amounts to about 870 crores against which the gold reserve, if valued at the present price, amounts to about 92 crores—a backing of more than 10 per cent. Surely, in respect of its gold backing, the rupee is in a much stronger position than sterling. And if people have not lost their faith in the solvency of sterling, there is nothing to fear about their faith in the solvency of the rupee.

But there is another very serious implication in the suggestion of the Finance Member. If we were to accept his logic, then as long as there is the present size of our note issue, we must continue to hold our large sterling assets as the backing of the rupee. We should not for a moment touch them. And this for all practical purposes means that our assets in sterling are permanently frozen in favour of England. Can any one



contemplate such a position with equanimity?

The money saved and then converted into sterling is the result of our savings achieved through hard life and privation. If we utilized this for our economic uplift there could be some consolation. But if we lock it up for ever, for all practical purposes we make a free gift of it to England. Can any one make such a suggestion however sceptical he may be? And yet not touching the sterling assets practically amounts to making a free gift of it to England—at any rate for a long period.

The cry that if we use up the sterling balances, it will lead to a flight from the currency should, therefore, be utterly ignored. Nothing would suit the British interest better than that we should continue to keep our sterling credits blocked in England for ever. But how could this suit India? I have no doubt that the rupee would be in a much stronger position by replacing it by our own credit and our own securities rather than by backing it by sterling.

Sterling securities represent a debt due by England to India and it must be repaid in goods. Sterling securities must, therefore, be liquidated according to our needs and be replaced by our own credit. The country's interest demands it and we must insist on it at the proper time.

### Question of Distribution

The last but not the least important question that we are asked:—What of the distribution of the new wealth? It is a pertinent question to ask because it will be a great disservice to the country if a plan is made to make the rich richer and the poor poorer. After all, a plan has no meaning if it cannot give relief to the most depressed.

While it is true that we have laid down no cut and

dry scheme for distribution, I hope one would be able to read between the lines and discover that we are proposing a kind of State control to the extent it may be needed which, while not frustrating free enterprise or obstructing production, will at the same time, we hope, ensure a fair distribution of the country's resources with a view, in the words of H. E. the Viceroy, "to use rightly and to best advantage India's great economic assets not to increase the wealth of the few, but to raise the many from poverty to a decent standard of comfort." I will again adopt the Viceroy's words when he said: "We must lift the poor man of India from poverty to security, from ill-health to vigour, from ignorance to understanding, and our rate of progress must no longer be at bullock-cart standard but at least at the pace of the handy and serviceable jeep."

Sir Stafford Cripps—that much familiar name in India—while discussing the question of post-war reconstruction in England recently said that "no principles of Capitalism or Socialism need or must interfere with the complete liberty of action of the Government in making sure that there is full employment." He added: "The important matter to plan is not who produces but what is produced."

I think every right-thinking man whether he belongs to this or that class, must endorse this statement of Sir Stafford Cripps. Anyone who is led away by principles of extreme capitalism or of extreme communism will do a great disservice to the cause of the country if he continues to stick to his time-worn notions and does not adapt and accommodate himself to the call of suffering humanity. As Sir Stafford Cripps remarked: "The plan should be such as would be severely practical and that all genuinely progressive-



mindeds citizens could support it." He also said: "I refuse to admit that it is only by revolution and bloodshed that changes can be brought about in our social and economic conditions." I endorse the remarks fully.

I hope the most orthodox and the most radical will find a common ground somewhere between the two extremes. Any plan that does not seek to mobilize and harness the goodwill of all sections of society, be they leftist or rightist, of all the progressive-minded citizens, is doomed to be a failure.

A plan which provides for the minimum for the under-fed and under-clothed, which provides a vast network of schools, hospitals and dispensaries, surely cannot be one to make the rich richer and the poor poorer. I think this disposes of the criticism that the plan makes no proposal about the distribution. I claim that a fair distribution is inherent in a plan like this.

Before I conclude, I should like to touch on two more points.

### **No Academic Pastime**

First of all, let us not treat the planning as an academic pastime. It is a severely practical problem—one of life and death. It is very easy to put any plan on the anvil of theory and to pound it into dust with the hammer of criticism. But it is very difficult to produce something constructive. Any number of difficulties and defects could be pointed out in any plan. But then, is it meant that India should remain as it is and continue to discuss difficulties and defects? If it is desired that a plan should be made for raising the standard of the people, then we would do well to start with an admission that no plan could be perfect and that it could only be perfected while it is in execution.



The second thing is that we should go ahead with our eyes open in respect of the difficulties. In fact, the difficulties are not those that have been pointed out by some critics so far. There are other difficulties far greater and far more formidable. But we must march forward in the face of difficulties, solve them and go ahead. But at the same time we should have a complete picture of the conditions necessary for the success of such a plan.

### **National Government Indispensable**

The success of the plan, first of all, depends on a national government that can inspire general confidence. It should be a stable government with a continuity of policy. The planning authority should be above party politics so as to be in a position to get the fullest co-operation of all classes of people. It should know the job not merely in theory but also in practice. And it should have the knack of utilizing the best talents in the country.

### **Scarcity of Right Men**

Do not forget, money is the least important difficulty. The most serious difficulty about the planning is the scarcity of men. In India we have not got a sufficient number of men who could at present take up the execution of a job of this kind. In Russia 95 lakhs of persons were needed to administer the economics of the country during the planning days. That works out to about 5½ per cent. of the total Russian population.

The Russian system being based on socialized economics demanded a great inroad on the reservoir of its population. If we started like Russia, we may need about 2 crores of our population only to ad-

minister the plan. This in itself will make the administration very costly. We may, therefore, have our own independent policy in the matter of State vis-a-vis private enterprise. Personally I will choose private or State enterprise only on one basis, viz., the good of India. I would allow private enterprise where it benefits and State enterprise where it is needed.

In any case, the demand on our population will be large and while we have the quantity, we have not the quality. We have not got sufficient teachers. We have not got enough doctors. We have not got enough nurses. We have not got enough engineers, builders and so many other professional men.

And, last but not least, we have not enough men with the experience of production and distribution. In such a planning you cannot do without those who have got practical experience of production and distribution, organization and accounts, etc. And we have not got enough men of this type. The difficulties, however, would be solved if we were a practical and realist people, not discussing all the time theories and ideologies but uniting for the good of all to act and to achieve.

Success is guaranteed if we resolved upon such action and achievement. Success must depend ultimately on the wholehearted co-operation of all sections of society. This again will depend on the tact and ability of the future government. And since the government will reflect only the mind of the nation, let us set about casting that mind in a constructive mould.

I hope that we shall all rise to the occasion and succeed. We should strive for nothing short of complete success for the good of our motherland.

	AGRICULTURAL		INDUSTRY		COMMERCE		EDUCATION		HEALTH		HOUSING		MISC.	
	1.20	1.00	Basic	Comm.	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
	Inv.	Inc.	Inv.	Inc.	Inv.	Inc.	Inv.	Inc.	Inv.	Inc.	Inv.	Inc.	Inv.	Inc.
1st Year	30	60	60	60	20	4	4	30	6	214	..	..	214	..
2nd	30	80	80	80	20	6	6	35	6	243	..	..	243	36
3rd	30	72	85	24	20	8	8	35	6	20	262	140	262	140
4th	50	100	115	56	25	10	10	40	6	40	321	253	321	253
5th	60	163	130	94	25	12	12	50	6	60	360	394	360	394
Total	200	384	480	174	110	40	40	100	30	120	1,430	812	1,430	812
6th	65	240	150	110	40	14	14	65	8	85	421	563	421	563
7th	75	316	200	192	60	16	16	75	10	110	517	744	517	744
8th	85	403	250	253	65	16	16	85	15	150	597	900	597	900
9th	85	510	280	323	65	16	16	95	17	210	640	1,228	640	1,228
10th	90	612	320	432	70	18	18	100	20	275	716	1,531	716	1,531
Total	499	2,078	1,200	1,348	320	80	80	420	70	830	2,900	5,016	2,900	5,016
11th	100	720	320	544	70	228	85	40	20	350	915	1,842	350	915
12th	120	840	350	672	70	256	90	50	20	430	1,050	2,102	430	1,050
13th	140	960	350	803	70	284	100	80	20	575	1,120	2,019	575	1,120
14th	140	1,128	330	940	75	313	110	100	20	605	1,255	2,985	605	1,255
15th	140	1,295	400	1,083	75	340	125	100	20	705	1,360	3,421	705	1,360
Total	610	4,241	1,800	4,035	360	1,420	510	370	100	2,665	5,700	13,005	2,665	5,700
G. Total	1,240	7,416	3,480	5,558	1,000	3,314	910	470	200	3,615	10,000	18,903	3,615	10,000
Estimated saving	741				231					361				5,603
(In terms of goods														3,300
75% in Basic														8,803
10% in others														
Saving on existing														
income in 15 years)														

Abbreviations:—  
 Cons.—Consumption  
 Inv.—Investment  
 Inc.—Income

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75% in Basic  
10% in other  
Saving on existing  
income in 15 years)



#### IV

#### PRELIMINARIES FOR PLANNING\*

INDIA is seized with the fever of planning. A number of plans have been prepared. And the last planner to enter the field is the Government of India, which is now flooding the country with voluminous literature. This is a satisfactory sign indeed, since it indicates the country's impatience to build up a proper standard of living with the least delay. But even the keenest desire cannot take us far unless it is accompanied by clear thinking and appropriate action. We should have a clear conception of the preliminaries and the preparation that will have to be made for launching a plan and of the atmosphere and the conditions required for its success.

I am not oblivious of the difficulties inherent in such gigantic planning specially in a country such as India. For complete success we need a good plan, a good foundation, a favourable atmosphere and, lastly, efficiency in execution.

The difficulty in India is not in planning but in securing the conditions needed for its execution. Not in money, but in men.

First about the conditions. A National Government is the first desideratum. But this alone is not sufficient. We need a Government commanding the

\* An article contributed to the "Eastern Economist" for April 30, 1945.

confidence of almost all the important elements in the country with stability and continuity assured for a reasonable period. We need people willingly and intelligently ready to obey the instructions of the Government and the planning authority. The masses, in order that they may give their willing co-operation, must have a fair amount of education to understand the advantages of the plan. The planning authority, on the other hand, should be composed of persons who are honest and efficient. A vast army of trained officers, millions of teachers, doctors and engineers will be needed.

### **Regimentation Not Only Way**

All these will have to be kept employed in non-productive tasks. All administration is in a sense non-productive. In war-time all kinds of extravagance and regimentation can be tolerated. But any nation that spends heavily on non-productive activities, be those connected with war or with administration, must be prepared to face bankruptcy. Too much regimentation cannot also be tolerated in peace-time even if such regimentation is asked for in the national interest. Planning, therefore, must be as little costly and as little irksome as possible. All these facts can be ignored only at our peril.

Even a National Government cannot create these conditions over-night. If, therefore, without a proper appreciation of the preliminaries and without laying a proper foundation we start at random, we must be prepared to face a serious crisis.

The Russians built up their economic system through planning. They made preparation for several years before they embarked first on the first Five-Year Plan, then on the second and then on the third.

America, England and some other countries, on the other hand, adopted no cut and dried plan, but a planned policy. This too gave good results. It was not an accident that England's real national income, produced per head of working population between 1870 and 1937 rose, according to Colin Clark, from about 546 international units\* to 1,275 international units; that in the same period in the United States it rose from 730 international units to 1,485 international units; and in Russia from 264 to 379. Russia's plans have attracted world-wide attention, but it would be unfair to conclude that England, America and other countries that did remarkably well had no plan. Plans, every one of these had. The Democracies, however, mainly relied on individual initiative, and in order to achieve their object, created by legislation, tariff measures and taxation policy the conditions that gave an impetus to individual action. Russia, on the other hand, relied purely on State initiative and directed even the minutest detail of production and distribution through rigid regimentation. Both had their good and bad points. And both systems partly succeeded and partly failed.

None can deny the fact that America has achieved phenomenal prosperity. And yet she was not able to solve the problem of unemployment which in pre-war years rose to an astronomical figure. None similarly can deny the big mistakes that Russia made in her planning and created misery, starvation and drudgery in the initial stage without creating more wealth.

Even during the war-period Russia has created incentives for the individual to take initiative. Similarly, in Democracies the question of unemployment may be solved in the post-war period without resort to

\*One international unit is the volume of goods and services which one dollar could purchase in the U. S. A. in the decade 1925-34.



socialisation.

The past has taught some valuable lessons to the world. That over-centralization is not an economic proposition in peace-time is fully realized by all. Similarly, that unbridled freedom for private enterprise is not a desirable phenomenon is also realized by the most orthodox.

India thus could easily avoid the mistakes of others and could produce its own original pattern based on world experience. After all, both the systems are only means to an end; that end is to produce more and ensure an equitable distribution.

If it is realized that it is dangerous to begin with too much centralization and regimentation with risk of failure, then it would be more prudent to embark on a policy which will itself create conditions favourable for the promotion of prosperity and better distribution. Directive power will thus be generated not by the bureaucracy but by the circumstances created by the State. Such a policy must confine itself to the creation of incentives to produce more, save more and reinvest more and to better distribution. Various legislation, taxation and social programmes will be the main planks of such a planned policy.

This may be treated, at any rate, as the first step. Perhaps such a policy may prove so successful that the first step itself may turn out to be the second and the last one. If it so happens, India would escape the rigour of misconceived regimentation and the risk of a grand failure.

What should then be the outline of our preliminary steps?

The present contradictory and confused policy of the Government has caused more fears than hopes. This must be replaced by a clear and positive policy.

The Planning Member assures the public a rosy future and large-scale post-war expansion, but people refuse to have faith in these declarations as they find that action does not conform to profession.

### **All Jam Tomorrow**

Too much emphasis on the future and a niggardly treatment to the present: this seems to be the policy. To talk of 'post-war' and ignore the immediate is like planning the tenth storey without a thought for the foundation. In fact, the slender foundation that exists is being made shaky. Castles must be built on solid foundations and not in the air. Unfortunately, Government seem to think that the foundation may even be cracked. They must only shout slogans for the future. With this policy they completely ignored the war opportunities for the development of our industries.

If one analysed the progress of Indian industry during the war, it would be readily found that, except in a few directions, the capacity of Indian industry on the whole has been stationary. If there has been slight expansion in production, it is because under the stress of the war the potential capacity was fully exploited. In other countries, due to conditions created by war, huge industrial progress was made. But what happened in India? What action did the Government take to promote production and relieve scarcity?

The Tata Iron and Steel Co. recently condemned Government interference which, it said, is responsible for the check on Indian production. Mr. Krishnaraj Thackersey, the Chairman of the Textile Control Board, blames the Government of India for obstructing expansion in textile production and supplies by keeping the rate of depreciation pretty low and allowing unhindered exports. A mining organization is recently reported



to have said that while some collieries had no coal to sell, others have been closed down for want of demand. And the consumer goods factories had to close down for want of coal. Sheer maladjustment!

Had the Government been more alert and keen about promoting new production, things like fertilizers, power alcohol, calcium carbide, many new chemicals and engineering projects would have been in the production stage. The existing industries would have expanded enormously. There would be no scarcity of cloth, drugs, cement, steel, cycles, paper and many other consumer goods.

Is anything being done now? The Planning Member, to make up for negligence, promised a permanent Tariff Board to accelerate progress. Nothing happened. Instead, the Hydari Mission has to resort to imported products to grant relief to the consumer. This is indeed a queer way of planning and creating security and faith in future.

No one can object to the temporary import of consumer goods to relieve the scarcity prevailing in the country if side by side action is taken to fill up the gap between the demand and supply by stepping up our own production. For that a census of our potential production has to be prepared. A plan for immediate expansion has to be made. People have to be encouraged to expand and produce more. No one has thought of it so far. Hardly an appropriate method for promoting new ventures!

### **What Government Should Do**

The least that the Government could do now is to create an atmosphere of security for the existing industries and inducements for future expansion.

For this they must, first of all, announce their



policy in unequivocal terms. They should appoint a machinery which will have the co-ordinating power, so far as the various departments of the Government of India are concerned. This body will examine the difficulties of the industry, analyse them and immediately set them right.

The second action essential is to encourage savings and their re-investment in productive channels. With the large profits made during war-time it is forgotten that, after payment of taxes, etc., the industry has not saved appreciably for renovation and expansion.

Here is a table showing the consolidated profits and disbursements of five well-managed cotton mills, which shows the position at a glance. This is not the average position. The position of the industry as a whole is worse than the result shown by these five well-managed mills.

*Consolidated profits of six years 1939-44, and other accounts of the Century, Bombay Dyeing, Kohinoor, Sholapur and Swadeshi Mills.*

Total Looms	- - - - -	14,000	
Total Spindles	- - - - -	5,55,000	
(In lakhs of rupees)			
Total profits	.. ..		2240.44
Less tax	.. ..	1576.74	
" dividends	.. ..	252.50	1829.24
<hr/>			
Net saving	.. ..		411.20
Total replacement value of mills			1600.00
Total replacement value of plant			1100.00
Total capital employed	.. ..		1418.00
Cash position 1939	.. ..	—	22.50
" 1944	.. ..	+	151.00

Annual profit after taxation on capital employed .. ..	7.8%
Annual net savings in relation to the replacement value of the plant .. .. .	10 %
Cash percentage of replacement va- lue of the plant .. .. .	14 %

It will be seen from the above that these mills made large profits and yet after the payment of taxes they have earned just a little more than the depreciation on the replacement value. If we examine the cash position, we find that the net cash at the disposal of these mills in 1944 was 151 lakhs which is only 14 per cent of the present replacement value of the plant. One can easily understand the difficulty of the industry in replacing the worn-out machinery and placing new orders for expansion unless their cash position improves.

### Taxation and Savings

Even now it is not too late for the Government to embark on a positive policy of promoting savings and their re-investment in productive channels. This could be done only by altering the structure of taxation in a manner that would enable the producer to save more money for productive re-investment.

In the first place, the depreciation schedule will have to be changed. A liberal modification in the existing schedule of depreciation will automatically accelerate larger production through larger working hours. Adequate inducement will have to be created for new purchases of plants and equipment by creating new liberal schedules of depreciation for all new capital investments. Discrimination in taxation between distributable and non-distributable earnings

may have to be introduced. All money going into reserve will have to be granted relief and the money that is ploughed back into business will have to be granted still larger relief. This will create a better cash position for industry for making new purchases and also create inducement for re-investment in productive channels.

But with the creation of wherewithal, a lot of impediments and restrictive controls, that serve only to discourage new ventures, must be removed.

### **Capital Issue Control**

The first of these impediments is the capital issue control which requires drastic modification. How is the control of capital issue necessary?

The argument given is that the surplus money with the people must be drained off to the Government coffers for combating inflation. But one wonders what difference the control of capital issue makes to the Government's borrowing and anti-inflationary programme.

Those who have got surplus money and the habit of investment, either put their money in the Government loans or in the existing securities or in the bank. If they put in Government loans, then the purpose is served. If they invest their money in some of the existing commercial securities, then the person who sells these holdings gets the surplus money and must adopt one of the three above-mentioned methods. If the money goes to swell the bank deposits, it flows by itself into the Government loans. Since the surplus money cannot flow into any channel except into the Government securities, how does the capital-issue control create any new help? All roads lead to Rome. So all money belonging to companies in the absence of any



remunerative investment falls only into the Government's lap. The capital issue control is thus hardly justified.

Let us, however, examine the evil features of this control.

In the first place, the new floatations permitted after endless delays are hedged in with so many conditions that one can never be sure whether the concern would at all be allowed to function. From the very beginning the new floatation starts with complete uncertainty about its future. Is it sound business to start with uncertainty?

And yet under the shadow of these uncertainties the newly floated concern is asked to book orders for capital goods at very high prices. Sir George Nelson, the President of the British Chambers of Commerce, recently complained that America was offering certain capital goods below British prices. This shows that British prices are not competitive. But what would happen if, in spite of these uncompetitive prices, industry booked its orders in England and then subsequently found Government refusing to release the funds? This uncertainty is hardly the right way to encourage a new venture.

On the other hand, a company floated in foreign countries to operate in India is not bound by some of these restrictive conditions. It has not to depend on the Indian Government for release of their funds and it can start purchasing land and building houses and do other preliminary work immediately. The Indian company thus is put at a disadvantage from the very beginning.

Then, another queer thing. If one wants to float a company for a long-range programme, permission is available. If, however, a company is to be floated with

the object of starting work immediately, invariably the permission is refused. In other words, any concern except a British registered concern that wants to produce immediately is not allowed to come into existence. Only such concern as is prepared to put its money in Government securities and is not interested in immediate production is allowed to be floated. The new floatation must agree to act as a broker for Government loans if it is to come into existence. Thus the whole capital-issue control today is functioning for the purpose of collecting funds for Government loans and for the purpose of discouraging expansion. One wonders whether all the controls and restrictions are meant to promote or thwart Indian production.

### **Production and Red Tape**

There are so many more obstructive tactics practised by the administration. Only a few instances by way of illustration can be cited here.

1. Private enterprise planned starting a certain industry most useful for increasing the output of food products. The Government discouraged it and said that they would themselves start that industry. Precious time was lost. The Government did nothing. And the private enterprise too has gone out of the field because of Government policy. The country has suffered.

(2) A certain engineering industry producing consumer goods had to depend partly on imported material. The Government gave no facility to import these materials, although they needed its production for military purposes. Instead, they chose to import rather than buy the same in India. Due to this policy and lack of basic materials, the industry had to give notice that it was going to close down. The public



resented Government policy. The industry was then asked to book orders in England for the material but not in America. The British producers are delaying deliveries. But the Indian industry is not allowed to buy the required materials in America. The Indian industry has curtailed production. The Government meanwhile is planning to import finished goods of a similar nature from England.

3. There was a demand for putting up a large number of plants to produce certain food products. The Government decided that not more than a certain number of these units be allowed to be installed. Certain firms booked orders for their plants in England. The manufacturers in England promised quick deliveries. But the Government has undertaken to decide where and how many plants should be put up and by whom. A committee will be appointed to take decisions. Meanwhile, plans of private enterprise are held up. The Government has assumed the role of experts about location and the number of units that should be put up, with hardly any expert knowledge.

4. There is demand for expansion of another kind of industry. The Government would not allow "unplanned expansion" and so it is "considering." Plans are held up.

5. Recently a certain controlling authority issued instructions to a certain industry that it should not, in some direction, expand beyond the capacity that existed in September 1944. The public is clamouring for more goods while the Government is restricting production!

The list is not exhaustive.

In the name of planning, the registration of imports of capital goods and then the securing of import licences is being enforced. The inefficiency of Govern-



ment departments and red-tapism have held up all normal traffic.

The plea that unplanned expansion should not be allowed may be examined. What expert knowledge do the present Government of India possess? Have they made any concrete plans for immediate production? If not, why these impediments and why put the cart before the horse?

The evils of unplanned expansion are glibly pointed out. Look, they say, at the concentration of textiles in Bombay.

They forget that this concentration is not the fault of the industry. If there are more cotton mills in Bombay, it is because, when the industry was built up, other provinces had not started growing good cotton. Power supply was easily available in Bombay. The industry had to rely in the beginning on export of its products to China and East. Bombay being a port was thus the best place. The railway freight of cloth and cotton from and to ports was cheaper than freight rates from and to other places with even smaller distances. Thus the concentration of cotton industry in Bombay became inevitable.

If the Government had a clear policy at the very beginning, they could have stopped this over-concentration—not through controls—but by creating more attractive cloth and yarn freight rates for areas where it was desirable that the industry should concentrate. Had the Government of those days adopted the obstructive methods that are adopted these days, there would be no textile industry in Bombay or in any other area. Business men are no fools compared to the experts of the Secretariat in respect of choosing sites. If they make mistakes, they have to pay for it. If the Secretariat makes mistakes, it does not have

to pay for it—it is the country that pays.

From the above, it could be seen how Government has planned for restricting all new production. Their plan is not for expansion but for restriction.

If this policy is not in Indian interest, neither is it in the wider interest of England too.

### **Industrialize or Die**

“Export or die” is the slogan now of the United Kingdom.

Emphasis is laid on the desirability of England building up larger exports in the post-war period so that she may be able to import essential needs for her rehabilitation. The question of repairing the war damages and the maintenance of her pre-war standard of living is rightly agitating the mind of every thoughtful person in England. The essential condition of achieving this goal is export of manufactured and finished goods, requiring high technical skill and fewer man-hours per unit against import of raw and unfinished goods requiring more man-hours per unit. Naturally, therefore, “export or die” is the cry in England.

India, on the other hand, has adopted the slogan “industrialize or die.” Paradoxical as it may sound, the slogan of India is not incompatible with that of the U.K. India's desire to produce more does not mean shutting out exports. On the contrary, industrialization would mean larger demand for new kinds of goods—capital and also consumer—other than those imported by her in the past. Thus there is common ground between the slogans of the two countries. But the statement has to be qualified by certain fundamentals which must be clearly realized by both the countries.



### A Commercial Wedlock

India will have to realize that if she pays for her imports only out of her blocked sterling and is not prepared to buy partly through new exports, England would not be interested in such a bargain. England wants to export in order to buy her essential needs and if India desired to have only one-way traffic from England, naturally then England would not be attracted. Similarly, if England wanted to have all her exports paid for through imports from India and keep India's sterling blocked for an indefinite period, India too would not care to look at such a deal.

If, therefore, a commercial wedlock is to take place between the two countries, a middle course will have to be adopted under which England will have to agree to sell partly against her sterling debts and partly against new imports from India. This will enable England to liquidate her debts to India in course of time and also to build up a market in India which will be to her permanent advantage. India too will be able to get sterling realized and use it for reconstruction purposes—a great advantage. Thus a plan to their mutual benefit could be chalked out and adopted. This is point number one.

The second point which must be realized by England is that she cannot sell to India only that which suits herself. India will buy only what suits her needs. For instance, she would not be interested in purchasing such consumer goods as she herself could produce. And the list of such goods is growing. India is already producing textiles, sugar, cement, steel, paper, cycles, and, in course of time, will begin making electrical goods, motor vehicles, dyes, heavy chemicals and many other things needing high technical skill.

If England tried to dump such goods in the Indian



market as are produced by India and thereby kill Indian production and frustrate her efforts to raise her standard of living, no matter what Government existed, such attempts will be strongly resisted.

In the past, various devices were adopted to push British goods in India. Countervailing excise duty, imperial preference and direct Government patronage of British goods—these were some of the devices adopted. This policy, while it gave a temporary advantage to the British producer, was more than offset by a permanent hostility. Since India is bent upon producing her own needs, these devices, far from giving a permanent footing to the British manufacturer, can only produce a bitter hostility against him. England would be well advised to avoid her past mistakes.

India's need for many kinds of special consumer goods and capital goods will be so large and expanding in future that for a number of years England will have a vast field at her disposal to choose. But there are certain special advantages attached to the market for capital goods which an exporter need not lose sight of.

Consumer goods, once they are used and worn out, need not be replaced by the same make. Replacement may be made by similar products from other countries. The life of consumer goods being generally short, any established market for consumer goods can have only a short span of life. In respect of capital goods, however, the position is different. The life of plants and equipment being long, their parts are replaced almost every year and thus a permanent market is created for the manufacturer of spare parts, etc. Not only that. If a country is using, say for instance, an American plant, the technical help is sought in America. On the other hand, if the plant is British, the technical help will be sought in England.

Thus sales of plants and equipment create for the seller country a better and a more permanent export market for its spare parts and technical skill than the market for consumer goods and this is an extremely important consideration. England, therefore, if she studies the needs of India and concentrates on plants, equipment and specialized consumer goods, will have established an extremely valuable market for herself, provided she can satisfy two requirements. It has been suggested that immediately after the war the quality of the capital goods exported from England will not be first-rate. Industrialists here would, therefore, like to be reassured on this point, before they could contemplate commitments with British machinery-makers. The second question is about the price. While the index figure in England has gone up only by 50 points, the price level of capital goods is higher by 150 to 250 per cent. Intending buyers, consequently, have a natural suspicion that the prices are too high. They are entitled to be convinced that the quotations are reasonable. Unless these questions are settled satisfactorily and industrialists here are assured that Britain can and will supply high grade capital goods at reasonable prices, they cannot obviously place large orders in the U.K.

England wants to sell and India desires to buy. But if permanent trade is to be established, the requirements of mutual convenience must be fully appreciated. The ignoring of these fundamentals will and must create a serious conflict. If this is frankly recognized, a deal between the two countries will be possible. It is also desirable.

All these points about the preliminaries have to be considered carefully. Preparations for prosperity have to be launched. The right atmosphere and the

faith have to be created. But above all, India has to be saved from amateur planning. We need a plan but not for frustration and restriction.

One wonders what the present plans of the Government of India are.



## V

### A CRITIQUE OF GOVERNMENT PLANNING\*

Under the name of Post-war reconstruction, planning was undertaken by the Government nearly five years ago. Its history, if exasperating, is no less tragic. This department, during the five years of its life, has had to pass through four† wedlocks with four masters one after another. When one was divorced, another stepped in. The last one bolted out of the parlour in unseemly haste even without offering an explanation. Was the lady of the parlour a little too unlovable or did the last husband himself prove to be a little too dull? In any case, even after association with four masters, planning has brought out nothing except a voluminous and boring literature, and all talk about targets in every direction.

For the first three years, planning was merely in the realm of ideas. But after the Bombay Plan was out, the Government were stirred into some kind of academic activity,—not altogether bad, if not overdone. In March 1944 they issued a plan more or less copying the ideas of the Bombay Plan. After that the craze of planning spread to all and sundry. Apart from many private amateur planners, the Central Government spread the

\*An address delivered at the Annual Session of the Federation of Indian Chambers of Commerce and Industry on 30th March, 1946.

†The four men who held charge of the department in succession were Sir J. P. Srinivasa, Lieut.-General T. J. Hutton, Sir Ardeshir Dalal and Sir Akbar Hydari.

infection to the Provinces and the States too. And targets began to spring from every quarter in a very light-hearted manner. Later on, the Government evidently thought it wise to seek the help of one of the Bombay Planners and so Sir Ardeshir Dalal was installed on the gadi to guide Planning.

As I have said in one of my speeches at this very place, planning is useful if it is meant to be carried into action. But planning of targets alone does not complete planning. Again, its execution is a task requiring tremendous ability, foresight and drive. If, on the other hand, in its execution all kinds of ill-advised interference are practised, then it becomes a definite liability.

### **Much Cry, Little Wool**

What India demands today is some positive action to achieve a higher standard of living. Planning is only the means, even one of the many means, to the end. Planning should not end in mere planning or something still worse, planned obstruction or procrastination. Naturally, therefore, when Sir Ardeshir stepped in, it was expected that the Government were now in right earnest and desired to move towards the goal in a practical way. If planning was to be confined only to consuming more paper and ink and creating all kinds of hurdles and difficulties, it would be better if the whole department were liquidated. When Sir Ardeshir took charge, he raised reasonable hopes. I regret that even with Sir Ardeshir as its head, the so-called planning meant much cry and little wool.

Immediately after Sir Ardeshir Dalal took over office, he appointed various Policy Committees. Most of them met only at intervals of a year. They were a kind of debating club. At the first meeting, Sir

Ardeshir made an announcement of his policy and intention to foster industrial development. This was quite heartening. But there was no following up by right action. He promised the appointment of a Tariff Board which took more than a year to come into existence and to liberalise the conditions of protection, which happy event never came to materialise.

Sir Ardeshir announced in the Assembly with great eclat that he was going to England to fight against the commercial safeguards but on his return he confessed that these would have to be dealt with only as part of the political settlement. A large number of industrial panels were constituted but only to chalk out targets.

Sargent's educational scheme; a plan for agriculture and animal husbandry; a plan to develop power research; a health plan; a road plan; an aviation plan and so many other plans were forthcoming. The total sum involved in all these was undoubtedly an impressive figure but it meant little without any machinery to achieve the results. Sir Ardeshir issued a statement of policy in April, 1945 and another in October, 1945, the last one when perhaps he was making preparations to resign. Again, it was all announcements and no action.

In military terms, you don't have targets without guns and bullets to fire at them. Here it was all targets and no guns or bullets.

### Too Many Restrictions

What was wanted was an incentive for producing more. Some real move to produce more food, more cloth and other consumer goods, action for more education, better health. Not mere promises but a real move towards the goal. But if there was no move or no incentive for action, there was no dearth of restrictions.



There were the controls; controls of every kind except control of poverty, illiteracy and ill-health. There was the control of capital issue, the import control, the export control, the transport control, the price control and the registration of capital goods and so many other controls. None for the purpose of producing more. But only to delay and hamper. Let us examine the evil effects of these so-called controls.

If one is to plan new production the first step that one has to take is to get new capital, then buy equipment and lastly construct the plant, work it and successfully survive foreign competition. It is after crossing these hurdles that one is in a position to produce more goods and increase the national wealth. The country's interest therefore demands that the State should do its utmost to encourage and help at every stage all such plans that are calculated to give increased production. But what has actually been the policy of the Government so far? If we analysed the position, we would find that at every stage, far from giving encouragement, Government has imposed checks and restrictions which have hindered, obstructed and frustrated all efforts for expanded production. In fact, instead of helping to cope with the natural difficulties, they have only multiplied the hurdles in the way.

### **The Capital Issue Control**

Let us begin with the capital issue control and analyse its working in the past.

In the first place, the whole process is dilatory. Applications lie about for months, often for more than a year without any decision. The applicant waits from month to month for the decision. Due to these endless delays all his plans are delayed and upset. The cost of

equipment meanwhile increases. So his original estimate goes up. He finds himself in serious difficulties. A nice way to expedite production.

Every department has its finger in the pie. Every file therefore travels from department to department and after endless discussion decisions are taken. No one realises that these delays mean so much national loss and so many opportunities missed.

If after a long delay permission is granted, the new floatation has to reckon with the uncertainty of the position. One could float a company but whether the business would ever be started would depend on the future planning of the Government which is still in the embryo. No hitch might arise, but that would not reduce uncertainty. The entrepreneur thus starts with complete uncertainty.

Then it has been almost an invariable practice to favour a floatation with a long range programme in preference to one for immediate production. If a company was to be floated with the object of starting production in the distant future it was welcome. If for immediate production, then in more than 25% of the cases, the permission was refused. Why were the Government of India interested in distant and not in immediate production when goods were so scarce and needed so immediately? Was it because a company with a long-range scheme having no immediate plan would have to put its money in Government securities which was all that the Government desired? In any case, the new floatations became virtually an agency for the purchase of Government securities. Thus the whole capital issue control has been substantially functioning as if it were for the purpose of collecting funds for Government and for discouraging immediate expansion.



### Confused Thinking

It was explained that the idea behind refusing issues for immediate production was "mainly because giving effect to them at the present juncture would tend to aggravate war-time pressure on materials and services in short supply, including coal and transport". Such an explanation reflects only confused thinking.

War was the worst period of scarcity and the simple solution should have been to encourage new production so as to remove the scarcity and check inflation. What the Government did was the reverse. After getting money from the newly floated concerns they spent it for defence purposes, created more purchasing power but by planned obstruction of new production also created greater and greater scarcity. By thus discouraging production, they may be held responsible for aggravating scarcity and creating inflation.

What did other countries, under similar circumstances, do? They definitely stimulated new production and thus to an extent relieved scarcity. They also laid foundations for the post-war period for large scale production. India thus has suffered in the present and also will suffer in the future.

Some changes have recently been introduced in the forms of application for capital issue. Some of the old restrictions have been removed but new ones have been introduced. Now the applicant is asked to state, among other things, the nature, amount and source of machinery and plant. And if the source is outside India, it is to be stated whether the application for registration of capital goods has been made to the Chief Controller of Imports and whether the registration has been accepted by him. Thus a new condition has been introduced.

Does it mean that if a company is to be permitted



to be floated, the applicant should first apply for registration of capital goods and get it registered before getting permission for floatation? This would be like putting the cart before the horse. You cannot plan purchasing capital goods unless you have first secured the capital.

Then, it is a well-known fact that if the plant is to be purchased from outside the sterling area, registration of capital goods would rarely be granted. Perhaps it would never be granted. This may then mean that no company is allowed to be floated unless it declares beforehand that it is going to buy its equipment only in England and nowhere else. And even then it should get that registered. If that be the position then the capital issue department virtually becomes an agent of the British manufacturer of capital goods. I wonder whether our aim is to encourage Indian industry or to promote British sales.

It appears that out of the total applications for registration of capital goods amounting to Rs. 60 crores, applications for only Rs. 34 crores were approved. Again we find ourselves in a vicious circle. A company may not be allowed to be floated and to secure capital if it has not got its capital goods registration and when registration is applied for, one is not always successful in getting the requisite permission.

Businessmen generally place orders for plant and then apply for registration. They cannot apply for registration until they know which country can supply best, earliest and cheapest. They cannot therefore commit themselves to buying from any one country before they have floated their concerns and invited quotations. These new formalities compel the applicant to make commitments with the selling country irrespective of the quality, cost and delivery of the equip-

ment, and will only further delay and hamper the task.

### Controls on Location

Recently another complication has been introduced. Certain companies which have already been able to secure capital are now being deprived of the permission to put up their factories under the pretext that the locality selected by the interested company is against the pattern of localisation plan determined by Government. I wonder which is more important. Localisation plan or immediate new production? Is this localisation plan necessary at a stage when we are just building from the scratch? And what expert opinion do Government possess to decide on the localisation plans? Evidently, Government are interested in delaying rather than in expediting production.

But this does not end the trouble. If you cross one hurdle of capital issue then you have to face another, i.e., the availability of capital goods.

There are serious difficulties about getting capital goods from abroad. In the first place, England suffers from certain natural difficulties like labour shortage, etc., which do not enable her to quote for early delivery. She has also large orders on her books from Russia and other countries. But I am also not sure how far she is interested at present in supplying capital goods to India for early delivery. She is a debtor to India and therefore she may not feel so interested in selling to us as to other countries. If she sells to other countries she gets hard currency. If she sells to India the payment may be adjusted against blocked sterling. This may be a mere suspicion on my part but there are cogent reasons behind these misgivings.

Maybe England's policy is first of all to rehabilitate



her own industry, renovate it, make it more modern and up-to-date, reduce the cost of production and then compete with foreign industries including ours. If that be the plan then it is all the more imperative for us to renovate our own equipment quickly. Our plants had to go through much stress and strain, wear and tear during wartime. India's need of capital goods therefore must be given the top priority.

Even raw materials needed for certain industries, various chemicals and spare parts are found to be difficult to import. This is telling heavily on industry. I know of cases where certain industries had to close down for want of raw materials or spare parts. I know also of cases where these difficulties are definitely holding up production.

On the other hand, it is possible to get capital goods as well as the needed raw products and spare parts from America and also from some of the continental countries. For instance, it is possible to get early delivery of cotton textile machinery from Switzerland. Also it is possible to get early delivery and at much cheaper cost power plants, etc., from some continental countries. America can supply a vast number of our needs. But a buyer is discouraged, even prevented, from buying outside England.

### Import Licences

If you apply for an import licence and you intend buying from non-sterling countries, elaborate reasons have to be given for justifying these purchases from other than sterling countries. If you want to employ even a technician or desire to consult a specialist in America you are asked to explain as to why such consultations could not be had in England. It is forgotten that it is the preliminary work by the technician or the



consultant that lays the real foundation of the future of the concern. Nobody would like to go to a consultant who is not supposed to be the very best available.

We are definitely discouraged from going to any non-sterling country for buying, for employing a technician or for consultation; and yet we are told by the Finance Member that even the 20 million dollars set aside has not been fully utilised by the mercantile community! This is really unfair because the facts are the other way about.

There may still be genuine exchange difficulties which may explain Government's disinclination to permit purchase or consultation outside England. But when I was in America, I was definitely told by the Washington authorities that in case India wanted to make purchases in America, there should be no difficulty in providing a big dollar loan for specific purposes. One wonders why no action in this direction has been taken so far, viz., to negotiate for a temporary loan.

It is curious why, while there are so many difficulties in respect of import of capital goods, many kinds of consumer goods, various kinds of chemicals, toilet goods, glass and pottery goods and cycles which compete with Indian products are being allowed to be imported.

In this connection one may also ask why no action is taken to promote the production of many kinds of simple capital goods in the country itself. Other nations solved their problems by erecting plants for manufacturing their needs in their own country. What have we done in this country? Nothing. It was well-known during the last five years that there would be serious difficulties in securing capital equipment from abroad in the post-war period. Yet why did we not

plan and encourage production of capital goods in the country itself?

There are a few workshops in India which have endeavoured to make alcohol plants, vegetable ghee plants and some kind of textile machinery in this country. They are simply struggling. They experience difficulty in getting technicians. They have yet to secure the requisite knowledge and plants. In spite of these heavy odds they are struggling hard and doing their best to succeed, all at their own expense. They will succeed. But the question is: What has the Government done to help them so far? Far from helping, more difficulties have in fact been created for them in several cases. Why has the Planning Department been putting merely targets before the country when industries that were started with the object of producing capital goods were in danger of being killed? The whole history makes a tragic tale.

### **Planning for Obstruction**

I am not exaggerating when I say that almost every control whether in the name of defence purposes or planning has functioned to frustrate and obstruct new expansion and production.

Take the transport control. Complaints have been received that in the name of regional allocation of indigenous products, transport of goods like soaps, toilet goods, vegetable goods, vanaspati, etc., is controlled. Curiously there is no such control for transporting imported goods which can be sent to any city. As a result, many Indian products are not available for purchase at various towns whereas imported products in the same or a similar category are readily available at all places.

The Indian traders and producers when they find that they cannot book their goods by goods trains, have



to resort to booking them through passenger trains. Naturally the freight charges of passenger trains are very high. This makes the cost of indigenous products non-competitive at the purchasing centre. Loud complaints have been received against this anomaly from various Indian traders.

There is then the price control. I am told that although the prices of buffalo hides and cow hides and some skins are five to six times the pre-war levels, the prices of finished goods have been fixed at a level which is hardly remunerative. The price of oil in the U. P., I am told, is fixed at a price which bears no relation to the price of oilseeds. There are similar anomalies in respect of flour mills. The export of gur and molasses and oil cakes is banned from many producing provinces except under permits with the result that while one province is starved of gur and cakes, in the producing provinces these things are simply rotting unsold.

In respect of paper control, I am informed that the control of distribution is applied only to the indigenous products. Under the present policy of the Government, paper and boards, etc., can now be imported under the open general licence without any difficulty from England. There is no control on the sale and distribution of imported paper, except newsprint. Why then this control on Indian paper?

Indian industry thus is left at a disadvantage when imported stuff can be freely sold and distributed in the country while restrictions on the normal trade of Indian mills continue in operation.

### **No Case for Regimentation**

There are various other internal controls which tend to restrict new production. For instance, under



the guise of planning and regionalisation and in the name of targets Government have adopted a policy of allocation under which they decide by which party and at what place a certain factory should be erected. The result is that nepotism and corruption are encouraged. People rush to get their claims registered and some people are accorded preference. Later on, some may, on account of financial difficulties, find it difficult to make use of the permission. They then roam about the market to sell their claims. What is happening in respect of these allocations in different fields is not likely to encourage production and efficiency but would only result in corruption and nepotism and thus delay the actual installation of the plants.

I do not want to deal with specific instances, because they are all too well known. But suppose for the sake of argument Government decide that a certain industry should be taken up by a certain firm. Now, if that firm already happens to be in the trade with a large stake, then Government create a monopoly in its favour by shutting the doors to all new-comers. Could such a policy be in the interest of the consumers? The greatest virtue of the capitalist system is free enterprise and free competition. No monopoly should be created by the State. A policy which creates a virtual monopoly for a certain individual or a firm cannot be in the best interest of the country.

On the other hand, if Government deliberately shut out an existing efficient firm in favour of a new one, which may be inexperienced and inefficient in the line, then the result would be inefficiency in production, higher cost and waste of national energy. Again a loss to the consumer. Both ways it would be

wrong.

It may be argued that without a proper pattern of localisation industry may get over-concentrated in one area—not a desirable position. And that if localisation is accepted, then the selection of parties becomes logically inevitable. I fear Government have a queer notion about the intelligence of business men. They seem to think that industrialists are foolish enough to plan a ship-building yard or a fishery in the desert of Rajputana or that they would plan rearing camels in the marshy land of Bengal. They forget that if the textile industry is concentrated in Bombay or sugar in the U. P. and Bihar, there are good reasons for that. Has there been any appreciable expansion of the textile industry in Bombay during the last fifteen years? None, because Bombay is no longer the best place for textiles except for fine spinning. Even now it would be foolish to rule Bombay out for fine spinning.

My contention is that the time has not yet arrived for such regimentation for fear of over-concentration. India has to increase her production perhaps by four to five times during the next 20 years and these regulations may be needed only when a good foundation is laid. When we plan building the superstructure we can think of restrictions. To talk of checks now is like providing for regulation of traffic at a place where there is neither traffic nor road. At this stage immediate production is more important than how, where and by whom.

### **Planning, A Complete Failure**

I need not go into various other kinds of controls. A big book could be written on it. There was a clamour in the country for fertilisers. When private enterprise



expressed its willingness to make plans for producing them, Government declared that they themselves would produce them. It is now a four-year old story.\* What have the Government done? Have they produced any thing so far? Nothing. The country needs fertilisers. There is none. Government's policy of interference has again thwarted private efforts.

There are so many controls that even now no one in the country knows the full implication of all. We may be violating them at every step. The fact, however, is that the cumulative effect of all this has been to discourage new production, to increase scarcity and frustrate efforts to produce more. This is the history of planning over the past five years.

If planning is to be judged by the criterion of increased production, then it has totally failed. There has been waste of money, time and energy and no achievement. It has not produced one ounce of goods. It has intensified and maintained scarcity. Therefore it is partly responsible for the malaise and discontent in the country. It should have been realised that the country did not need announcements of policies or endless debates or voluminous literature. It needed goods first and goods last.

After five years of work at planning, the result or achievement is almost nothing. Has there been any increase in the available supply of electrical energy? Has there been an increase in food production as a result of the "Grow More" campaign? This was one thing for which Government professed to be most anxious and they assured the country that they would leave no stone unturned to increase food production. What is the result? We all know it. Has there been any increase in industrial production? Have we more

\*The Sindri project may take another year or two to deliver the goods.



cloth or more consumer goods? Have they given us more education or better health or better social security? They have utterly failed. There is a limit to one's patience. It is now time that we frankly told the Government that our contention that no Government except a National Government could take up planning was correct and that they should now leave planning in better hands.

There is a Chinese proverb: If you plan for a year, plant grain; if for ten years, plant trees and if for 100 years, plant men. The Government of India have planned neither for a year, nor for ten, nor for a hundred years. This is the naked truth.

### Constructive Planning

But it is not my desire merely to criticise. My whole object in reviewing the past is to point out a lesson for the future. Planning is no more than a means to the end. We want more goods, more food, greater electrical energy, more education, better health, better sanitation, so on and so forth. We want to raise the standard of living of the masses. We desire to produce more wealth and ensure better distribution. It could be done through rigid regimentation on the pattern of Russia or it could be done on the pattern of democracies by creating favourable conditions and incentives.

In India there is a danger in rigid regimentation. In fact the danger is so great that we may defeat the whole object if we do not move rightly after carefully studying Indian conditions.

In the first place, we have not got the machinery to administer regimentation. For such an administration we need men with experience, integrity and efficiency. We have not got them. If we ignore these

simple difficulties and insist on rigid regimentation by a central authority, the whole national life may be vitiated by corruption and nepotism. Once public life is corrupted, the whole foundation of freedom will be undermined. People will lose initiative and that will be a serious national loss. Our habits and temperament under severe regimentation will be set in a different mould. Therefore it is desirable to realise these shortcomings of our situation and avoid all unnecessary schemes of regimentation.

We should not forget that what Russia achieved was done under a totalitarian Government. India, on the other hand, is definitely for a democracy. The people's will, it is desired, should rule. Can anybody therefore believe that even under a National Government people will readily submit to rigid regimentation of life? We should therefore adopt the next alternative, that is, to stimulate individual initiative and canalise all national efforts into the desired channels.

Education, health and other social work will have to be planned on a different pattern. But increased production and its equitable distribution could definitely be secured by providing incentives under certain conditions. Tell me the pattern that you desire to achieve and I can show how it can be achieved through planned direction and encouragement.

### **Incentives and Directives**

Centralised administration of a plan for a big country like India with its vast population is an ambitious task. Its very weight will make the whole structure crack. All our good intentions would thus be defeated. On the other hand, everything that we intend can be achieved if the proper conditions for their achievement are created.



We can stimulate the production of foodgrains, milk, fruits and vegetables by fixing their prices on a remunerative basis. In a selected sphere a judicious scheme of subsidies or concession in land revenue as an incentive for increased agricultural production may be promulgated. Supply of fertilisers at cheap prices can also stimulate production.

You can also, through changes in taxation, tariff protection and protection by other means, stimulate industrial production. In order that such increased production may not concentrate wealth in only a few hands, you can, by taxing the dividends heavily, restrict such concentration.

Again for encouraging the utilisation of new profits for expanding production, you may create incentives for ploughing back the money into productive channels. This may mean different scales of taxation on income—heaviest on distributed profits; lowest on the portion ploughed back into business and a medium rate for such profits as are put into reserves. You can direct social security, wages, working conditions, etc., through legislation. You do not need to regiment the whole life of the nation for such purposes.

I would therefore suggest that the first thing that we have to do is to remove all such controls which directly or indirectly hamper production and to make greater use of incentives and directives than of control. There should be only one consideration for every Governmental action. Will it stimulate production or will it not?

With this object in view we have to examine our tax structure to see how it can help to increase national wealth. I must here acknowledge with pleasure that the Finance Member has taken the first step in the right direction and has eliminated the E.P.T.



He has created more purchasing power for productive purposes. But this alone will not lead us to the desired goal. What, if the money is not ploughed back into business? It may be kept in reserve. I think it is essential that we should have a special incentive for canalising the money into productive channels. The whole tax structure has to be reformed. And therefore I welcome the constitution of a new taxation committee. I hope the taxation committee will consider all these questions only from one angle. How will it stimulate new production and how will it ensure better distribution?

With the same idea we should also examine the present capital issue control. The first thing necessary is expedition. And this can be achieved only if much of the unnecessarily elaborate questioning and restriction is eliminated. The only restriction in my opinion against new floatations should be that they should not be patently calculated to be against the best interest of the country. We might, for instance, ban the rearing of ostriches or dogs, or the manufacture of cigars and wine and many such worthless things! We may ban new jute mills since we have already more of these mills than India needs. These are only by way of illustration. But once having decided on the list of negatives, the positive part of the work should be got through automatically, quickly and without being hampered in any way.

The same applies to import licences. The only ban should be against such imports as are not needed, as are supposed to be luxuries or as are not calculated to increase the wealth of the country or of its nationals. We may also ban the imports of capital goods which are not likely to produce goods in India on an economic basis. We should

again have a list of negatives; no import licence for these but free licences for the rest.

Then we should make special arrangements for securing immediate delivery of capital goods that are needed. We should negotiate with England for the purpose. We should tell England that we would not sell them, or for that matter to any other country, our raw products unless we were given in exchange for them either food or capital goods. We should start negotiations for the settlement of blocked sterling. A substantial portion of our sterling balances should be converted into hard currency. We should also negotiate with America for a temporary loan for buying capital equipment. If we do all this, we shall have plenty of capital goods to start new projects.

But this is not enough. We should also give stimulus to projects to manufacture capital goods in India itself. After all we cannot be expected to depend for all time to come on foreign countries for our supply of capital goods. We must produce them in our own house.

Another thing. Localisation plans will have to be dropped. Here again we should have a list of negatives. We may lay down, for instance, that cotton mills except for fine spinning would not be built in Bombay. This is only by way of illustration. There may be other negatives. If the investor and the country know all these negatives, any further regimentation would be hardly necessary. Besides this Government should not have the right to choose parties who are privileged to instal certain plants and to put a ban on others.

### **Machinery for Planned Production**

There is another very important suggestion made



in the resolution. A machinery should be created, call it tariff board or call it by any other name, to look into the needs of industry. Whether it be a question of protection or of procurement of technicians or know-how or any other problem hindering expansion, this machinery should examine the question and take immediate action to help industry and remove the hindrances. Such a machinery composed of experts and talented persons is extremely important.

By giving these facilities to industry we are not likely to help the rich—a notion mistakenly held by many. A distinction between the industrialist and industry is necessary. We are by these measures helping only industry and not the industrialist. It should not be forgotten that whatever money industry earns, after a reasonable distribution under these proposals, it must be ploughed back into the business. This will lead to higher wages, greater wealth per capita, better houses and better education. There will be heavy taxation on dividends. On high personal incomes there is already 97% taxation. This will ensure better distribution. Nobody therefore need fear the rich becoming richer. But whatever you may say you cannot bring up the underdog unless your industry expands.

Another suggestion. We should strengthen our purchasing departments in England and America. The High Commissioner's office in England should be strengthened. As at present it is a worthless institution. We need there men with experience and talent to help us in every way. These departments should help us in recruiting men, in getting know-how, in purchasing machinery for India; in short they should act as our agents.

I think if we take all these actions, no regimentation will be needed. As a result there will be free



play of the best of our talent and initiative. And that only in the service of the country. Scarcity will disappear. There will be more goods and more comforts. Standards of life will begin to rise. The new wealth thus produced will be available for social security, health, education and other beneficent activities. But if we do not act quickly, we shall be in for serious trouble.

### The Crisis of Scarcity

I am not talking lightly when I say that if we do not move at once towards larger production, we are in for serious difficulties. During the last four years people have suffered immensely on account of scarcity. They are now losing patience. They want more goods, more food, more cloth, more of everything. People's purchasing power increased considerably during wartime. But it cannot be utilised unless there are more goods. Scarcity thus is affecting the temper of the people. Either wages must go up all round or more goods should be produced. If wages rise then it will lead to higher cost and higher prices. We shall thus get into the endless spiral of inflation which will alternately lead to higher wages and higher prices. The only remedy therefore is more production.

On the other hand, wartime expenditure is likely to be reduced by nearly 600 crores of rupees. This will reduce the purchasing power of the masses and in the absence of goods the existing distress will become unbearable. Private and public expenditure for productive purposes and social schemes should therefore be undertaken to meet inflation and deflation. These new expenditures will fill the gap caused by reduction in defence expenditure and maintain the existing purchasing power of the masses. It will thus

check deflation. By producing more we will be able to meet the demand of the masses for more goods. This will check inflation. New production and social expenditure are the only remedies against inflation and deflation respectively as also for creating peace and contentment in the country and raising the standard of life.

If we do not do this and do not create a greater supply of goods, there will be neither money nor goods. The standard of living then will begin to deteriorate seriously. In that case we shall miss the opportunity for building up the nation educationally and physically. There will be no chance for converting the slums into habitable houses. There will be no chance for villages to be converted into clean habitable colonies. There will be no chance to build up a network of hospitals and dispensaries in villages nor can they have their own schools and their own roads. All these opportunities will be missed. People will continue to suffer from scarcity. And this again will try the patience of the people. In fact I warn all concerned that even peace and security, law and order in the country at present depend on producing more goods.

The Planning Department by its ill-advised methods have lost five precious years and given a wrong lead. They talked but did not act. No more time should now be wasted. There should be no more profitless talk of targets. There should be a definite move and action. A right lead here and now is necessary. We are perhaps already too late. The only thing that can save India from a serious crisis is the fullest utilisation of the available hands and the talent of the whole nation for more production and a better life. We can achieve it. We have the resources to do it and we must do it.



## VI

### OUTLINE OF A 5-YEAR PLAN\*

The signatories of the "Bombay Plan", when they prepared it, were under no illusion about the fact that only a National Government could undertake the planning with all the implications that planning carries. Luckily, India is now a free nation with a popular Government in the saddle. It is only meet and proper, therefore, that the country should now expect its desires to materialise. People now demand economic prosperity, a large expansion in education, better health and sanitation, better houses, more roads and greater transport. And to work for the achievement of all these, we need, first of all, peace and security. The question is: how to begin our march towards the goal and what could be achieved within the next five years?

In all our future planning we must understand the clear distinction between a "Productive" and an "Un-productive" investment. Education, health and sanitation and all such social activities, while highly essential for the uplift of the nation and also indirectly for higher production, are not in themselves productive

\*The introductory chapter of a note prepared and published by Mr. Birla in August, 1947, about which he said:—"This note is not claimed to be a five-year plan, but a well-defined outline of a plan... The need of the time is not elaborate plans and fixing targets alone but action. This note is claimed to be a well-thought out and definite guide to action. If once action is decided upon, the plan could be elaborated and detailed drawings prepared."



investments. Transport and such other things too, while auxiliary to production, cannot be directly productive by themselves. Neither of the two could be undertaken without being preceded by increased wealth, in other words, increased production. While, therefore, we should not ignore social needs, we must concentrate in the initial stage substantially on productive spheres. Our meagre resources at this stage should be utilized in such a manner that the first priority is given to increased production with the help of which alone other social and semi-social expenditures could be expanded.

### First Essential

As has been said before, for any constructive work to be planned and executed, the first essential is peace and security. We shall have, therefore, to maintain our army expenditure at a level that would ensure perfect peace at home and abroad. Without public co-operation, however, peace could not be restored merely by the police or the army. And public co-operation will depend substantially on the psychology of the people that Government policy can create. People must be made to feel by Government actions and not merely by slogans that it is striving hard for the achievement of their economic and social uplift and that in the interests of the country, it is their duty to co-operate with and help the Government.

In a democracy, public confidence in the Government is very essential. If the composition of the Government in the Provinces as well as at the Centre cannot command complete confidence in the integrity as well as the ability of its ministers, it fails to get public co-operation and cannot survive long. And continuity being an essential factor in any long-term

planning, a stable government is the first desideratum. The criticism often heard at present, in public as well as in private circles, in some cases against the integrity, in others against the ability, of some of the Provincial ministers is ominous. To take it lightly will be unwise.

Financial stability is another important factor which cannot be treated lightly. As is well known, by one stroke of the pen the last Finance Minister undermined the whole financial structure and public confidence which even to this day has remained unrestored. Perhaps it is not well known that whereas in previous years the Government could borrow above 400 crores annually, this year the Reserve Bank has had to be a constant purchaser of public bonds and yet the security market has been continuously sagging. It would be disastrous to tamper with the budgets, the currency or the credit of the country. The Budget should ordinarily be balanced. The stability of the currency should be preserved. All novel experiments should be tabooed. Finance is a tender plant which cannot stand the slightest atmospheric disturbance.

If we base our plans on the assumption that private enterprise is to play an important part in future economic expansion, then we can ill afford to create loss of confidence in business and financial circles. The worst method to attract private capital is to deliver unbalanced speeches and make amateurish experiments in financial and labour fields. You cannot eat your cake and have it.

If pure socialism is the aim, then the whole plan has to take a different shape. Management and ownership being a purely State affair, no reassurance to private enterprise is needed. On the other hand, if even a part of the task is to be performed by pri-



vate enterprise, and modified and controlled capitalism is to be given a chance, then Government cannot afford to scare business; but definite action has also to be taken to attract its co-operation. Bitterness, abuse and public reprimands hurled at the business community are not methods calculated to secure their co-operation and help. It is not suggested that we adopt a nineteenth century laissez-faire policy and allow a free field to undiluted capitalism. But in the present state of India, co-operation from every quarter and no less from the business community is extremely important for success and its importance should not be under-rated. Those who—to placate the Leftists—apologetically defend private enterprise on the ground that it is essential in the near future, though it will be liquidated later on, are doing no less harm than the extreme socialists. On this question a clear-cut policy will do more good than vacillating agreeable talks.

### Labour & Capital

Last but not least, co-operation between labour and capital is a *sine qua non* of all future progress. Whether in a small factory or in big plans like ours, increased production depends eventually on men, material and machines. Machines could be imported with existing resources or built up in India. Material also could be produced. But if men do not work or do not work with devotion, energy and enthusiasm, neither could machines be built nor could materials be produced. The question of industrial peace, besides general peace and security, is thus the most essential problem.

This must be tackled in the psychological as well as in the economic fields. Workers have to be educated



to realise that industrial peace is as much in their interest as in anyone else's. Higher wages, better houses, better working conditions and all other amenities can come only out of hard work and increased production and not through strikes and disputes. They must be made to realise that too high a wage-rate tends to increase the cost of production which eventually must restrict consumption and put a stop to expansion and affect their own income. If, on the other hand, we pay lower than a fair wage, labour will not have enough vitality to work. For hard work in India, labour needs good, adequate and balanced food and comfortable living. A fair standard of all their needs has to be estimated and wages fixed at that level. Such wages, however, must have a relation to output of work and not to mere attendance. Once a policy is laid down, the State thereafter should not allow either the employer or the worker to deviate from it.

It is also essential that we should take a decision on the policy of working three shifts. India is very poor in respect of capital resources. Besides, the position of delivery of capital goods from abroad is not very bright. Working of three shifts, therefore, if we desire immediate expansion of production, is essential. This is desired also for conserving our meagre resources and foreign exchange. The opposition in certain quarters to the three shift working must be made to realise that national interests demand the adoption of this method of working as one most suitable for achieving quick results and high yields from our investments.

No detailed suggestions are made for a labour policy. But factory laws and conciliation machinery will need great adjustment in order to induce labour

to work for greater production.

### Taxation Structure

The taxation structure, too, will have to be designed to encourage saving and investment. As it is, it functions against both saving and investment. Illustrations need not be cited at this stage. There is a great need for overhauling the whole taxation structure in a manner that can promote production, create incentive and ensure a better distribution of wealth.

It is with this background that we should embark on the Plan.

It is estimated that it should be possible to plan and incur an expenditure of nearly 1,220 crores in the next five years as detailed below:—

### Estimates of New Expenditure, Exchange and National Income in crores

#### AGRICULTURE

	Capital needed	Exchange	National wealth
Extensive cultivation	70	30	67
Tube-well irrigation	75	30	70
Multi-purpose projects	100	30	39
Manuring	—	—	52
Improved varieties	3.5	—	35
Sugarcane	22.5	10	96
Cotton	75	30	42
	346	130	401

#### AFFORESTATION

Afforestation	7	—	—
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**INDUSTRY & MINING**

Textile	20	17	115
Steel	70	35	43
Fertilizers	52	26	20
Chemicals	40	26	30
Electrical Goods	10	6	5
Capital Goods	50	30	30
Sugar and Gur	24	8	36
Paper	22	15	9
Cement	28	14	9
Miscellaneous	50	28	30
Cottage Industries	50	5	50
Coal	12	8	22
	428	218	399

**POWER**

Hydro-Electrical and Thermal Power Projects	50	30	40
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**TRANSPORT AND COMMUNICATION**

Railways	130	70	50
Shipping and Ship-building	35	20	10
Roads	75	10	—
Communication	20	12	—
	260	112	60

**SOCIAL**

Hospitals, educational buildings and sanitation	43	19	—
Labour housing	82	6	—
	125	25	—

**TOURIST TRAFFIC**

Development of hill stations, Spas, etc.	5	2	1
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## TRADE

Tertiary Occupations	—	—	200
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## SUMMARY

Agriculture	346	130	401
Afforestation	7	—	—
Industry and Mining	428	218	399
Power	50	30	40
Transport and Communication	260	112	60
Social	125	25	—
Tourist Traffic	5	2	1
Tertiary Occupations	—	—	200
	1,221	517	1,101

The items detailed above are dealt with separately in the appendices\* in greater detail.

It will be seen from the summary that out of a total investment of about 1,220 crores, nearly 62 per cent is to be invested by the Government in agriculture, afforestation, power, transport (minus shipping), communication and social projects and about 38 per cent by private enterprise. Those projects which are to be undertaken by the Government are essentially such as could either be taken up by the Government itself or by an Authority like the T.V.A.† Perhaps the latter method may be more desirable and efficient. But this is a question of high policy.

Going further into the figures, we find that 353 crores are proposed to be invested in agricultural improvements and afforestation, nearly 428 crores in

\*The appendices to the note relating to agriculture, afforestation, industry and mining, power, transport and communication, housing, hospitals, etc., tourist traffic and tertiary occupations have had to be left out but the author's summary of his estimates is reproduced.

†Tennessee Valley Authority in the United States of America.

Industrial projects, 50 crores in power projects, 260 crores in transport and communication and 125 crores in social projects. We also find that roughly 996 crores are proposed to be invested in productive and auxiliary and 225 crores in unproductive projects. The estimated income may be classified as about 400 crores from agricultural and about 700 crores from non-agricultural sources. It will thus be seen that the proposals are well-balanced.

### Investment Required

The Bombay Plan had suggested an investment of 1,400 crores in the first five years based on old prices. Based on new prices, it would come to about 4,220 crores against the present modest suggestion of only about 1,220 crores. This compares with the Bombay Plan in the following manner:—

	Bombay Plan	Present Plan
Industry	790	428
Agriculture	200	346
Transport & Communication	100	260
General	300	187

As will be seen from this table, the ratio of Agriculture, Transport and Communication has been increased at the expense of Industry and General.

A total investment of nearly 1,220 crores in 5 years is not a big sum. On an average, it comes to 244 crores per year which is much less than what is recommended in the Bombay Plan. During 1943-46, in three years, India made a total public investment of 1,950 crores or 650 crores on an average per year without any special effort. Our present annual income is expected to be of the order of 5,280 crores. Thus the investment proposed is only 4.6 per cent of the

national income which is quite a modest figure. Even in normal times, such an investment would not be considered of a large order.

But this is true only subject to one fundamental condition, viz., that public confidence in the financial policy of Government is not impaired.

Of the proposed investment of the order of 1,220 crores proposed in five years, about 62 per cent is to be invested by Government and only about 38 per cent by private enterprise. But in the last resort, the whole of it has to come out of the pocket of the private investor. When the Government raise loans, it is private investors who provide the money. And when private enterprise floats a concern, again it is the private investor who gives the money. There are two conditions necessary to the free flow of money from the investor to new investments. One is saving and the other is the long-term confidence in new investments. If Government do not promote saving, then there could be no money left for investment. Again, if there is no confidence, money will get shy and will not come out of its shell.

A practical example of how capital can get shy is to be found in the last Budget which shattered public confidence in the Government's financial policy.

In a country like Russia, investments have often been made by the Government by borrowing from its own Bank; in other words, through the expansion of currency, viz., through the printing press. A desired portion of the payment is made not in currency but in promissory notes. In other words, the Government compels the worker and the recipient of the money to invest back a portion of the money that they receive. This naturally reacts very adversely on the living standard of the worker, and yet he has to do



it, even though unwillingly. In a country like India such a method must be ruled out and ultimately, therefore, we shall have to rely on the savings and confidence of the investors.

The monetary policy, therefore, will have to be such as can foster confidence, promote saving and also encourage re-investment. If such a policy is adopted, no difficulty should be experienced in finding 1,220 crores in 5 years.

If a very high figure for investment has not been proposed in the first five years, it is because in the initial stage we cannot quicken our pace. We have not got the equipment, plants, power, raw materials or transport. Even the new labour required is yet untrained. It might be possible, however, to do better if the general situation improves. This target should not, therefore, be treated as a ceiling but as a minimum which, given reasonably favourable circumstances, could comfortably be achieved within the specified time.

No plan should be treated as final or unchangeable. Every plan has to undergo modifications during the course of its execution. The target, therefore, should be treated as a minimum which could comfortably be achieved during the next five years. The period of the first five years should also be treated as the period of preparation. We shall be able to quicken our pace in the next five years.

### **Return on Capital**

In the Bombay Plan, the average yield in national wealth was estimated to be 40 per cent. per annum on the capital invested. In the present estimate, a return of about 90 per cent has been taken. The reason is obvious. In the first place, such investments

have been selected as will give greater yields. Secondly, the aim here is the improvement as far as possible of the existing equipment and resources rather than the installation of new plants. For example, provision has been made for working three shifts in industries like textiles, and for greater yields of food, cane, and cotton through improved methods. These give a better return. Besides, the rise in prices has naturally increased the ratio of yield. This, while curtailing investments, has increased the return.

### Foreign Exchange

We shall have to import capital equipment from abroad for which we shall need foreign currency. The need estimated in the Plan comes to about 517 crores, and is quite modest. Our sterling resources, for the time being, are uncertain since we do not know how much of it will be left to us for immediate use after its division with Pakistan and the settlement with U. K. Whatever it may be, we should treat it only as a reserve for the time being. For foreign exchange we should depend to a larger extent on our export surpluses. Our existing exchange resources will have to be used very sparingly. It may be possible to raise a loan in America. But here again we should not borrow only to default. Eventually, we shall have to rely more on indigenous production of our capital goods requirements too. But that is a rather distant dream, at any rate for specialised goods.

But in order that we may not be too tight of foreign exchange we shall have to consider a new pattern of foreign trade, which should give us a comfortable balance of trade in our favour. We may have to develop tourist trade also for the same purpose.



Attached is a tentative pattern\* of our trade with Pakistan and also of our external trade excluding Pakistan. In order to achieve this pattern, adjustment is recommended of our customs duty in such a manner as to discourage all imports of non-essentials and encourage export trade without adversely affecting our standard of life.

There is little in favour of import and export controls as exercised now, because besides creating corruption they lead to procrastination, obstruct all expansion and curb incentive. They also lead to inefficiency, increase the work of Government and waste human effort, which cannot be conducive to the national interest.

As is well known, our Services are substantially depleted. In place of a total force of 1,200 civil servants, there are now barely 400. They are hardly enough even for routine administration and maintenance of law and order. To burden them with new jobs to which they are not accustomed is to invite sure disaster. For more than one reason, therefore, it would be desirable for the Government not to get involved in all kinds of control, involving licenses, quotas, permits and the rest.

True, prohibitive tariffs too have many disadvantages. For instance, they lead at times to smuggling. They may lead to retaliation by foreign countries. They cannot be too scientific. Smuggling, of course, is common both to import controls and prohibitive tariffs. But with all its disadvantages, the regulation of external trade through tariffs and quotas is recommended. In Indian conditions this is the best possible method. The object should be to earn as much foreign exchange as possible, and discourage undesired imports, without creating undue hardships for our people.

\*This with some other tables has been left out.



While not ignoring the needs of producing capital goods and future industrial expansion, emphasis is laid here on the immediate satisfaction of the elementary needs of our people for common goods. If we do not do this, we cannot check inflation nor can we check dissatisfaction.

While with a proper organisation it is possible to achieve the target for Textiles, it should not be forgotten that its achievement again depends substantially on new production of cotton.

### **Agricultural Targets**

In fact, the success of any industrial planning in our country will very largely depend on the achievement of the agricultural targets. With adequate food and raw products, industrial targets will never be achieved. The attainment of agricultural targets must, therefore, be ensured with the help of experts—bearing in mind the inter-dependence between agriculture and industry, for to get more out of the land we shall need fertilizers, implements, tube-well fittings and other equipment which, in our best interest, we must produce ourselves.

India has been carrying on propaganda for "Grow More Food" for the last five years without any appreciable result. The time has now come when this question should be made the special charge of a Board equipped with expert knowledge and drive. As long as the food scarcity and the scarcity of raw materials continue there is no possibility of carrying out the industrial and social plans. This will undermine peace and security too. We cannot live without more food. We cannot produce more cloth or sugar without more cotton or more cane. The constant worry and trouble thus caused due to scarcity will react on all other

plans.

Besides, unless we raise the purchasing power of the agriculturist in the first stage, we shall not find an easy market for our new production of consumer goods. This will in the end react on our production, thus defeating our whole object.

The Multi-purpose hydro-electric work schemes and other projects of irrigation and manuring to improve agricultural production should, therefore, be treated with the highest priority in all our plans.

From the layman's angle, the increased production in agriculture will depend on (1) better seeds, (2) irrigation, (3) better farming with a scientific rotation of crops, (4) fertilizers, and (5) more agricultural research. Dry farming is another method helpful to increased production. All these items should be undertaken at an expert level. It is possible to achieve the target within five years with proper organisation and drive.

It should not be forgotten that what is planned is not by any means too ambitious if we study the yield per acre of various agricultural crops in India as compared with other countries.

# YIELD PER ACRE IN TONS 1939-40

	Rice	Wheat	Sugarcane	Cotton
U. S. A.	1.01	0.37	20.06	0.11
Canada	..	0.52	..	..
Australia	..	0.42	..	..
Japan	1.61	..	..	..
Egypt	..	..	..	0.23
Java	..	..	54.91	..
India	0.35	0.32	12.66	0.04

Afforestation is another item which has to be tackled.



### Public Finance

A tentative budget pattern is given for the Centre as the average over the next five years. It is not claimed that this could be achieved in its exact form in the first two or three years. But it can well be treated as a guide towards our first goal. This will show how it is proposed to balance the budget and increase social expenditures at the same time. But this, of course, is subject to the assumption that the retrenchments suggested in various directions are carried out. If not, it will lead to inflation. The money provided under various heads for expenditure is on a liberal scale. The Government of the day will have to take courage in both its hands and eliminate all extravagance and uneconomic expenditure.

During the transition period, we shall have to frame our budget more or less on this pattern. Economy in governmental expenditure, fair provision for the army and social schemes with a scientific pattern of taxation and a balanced budget should be our ends.

### Planning a Policy

There is one more question needing clarification. Shall we adopt a rigid plan or only plan a policy? We have had a strict regimentation in respect of food, cloth and various other items during the last 5 years. We have had also controls over various other economic activities in the name of planning. The result so far has been that progress in production has been completely checked. Whatever we touched has disappeared from the market stalls. We have given no push to progress. All that was achieved was frustration, obstruction and scarcity.

Even before the war, after Government took over control of the sugar industry in the U.P. and



Bihar, the progress completely stopped in these two provinces. On the other hand, in other provinces where there was no control, progress continued.

The bureaucracy in India—and all credit to it for many good things—has functioned in the past mainly for maintenance of law and order. Civil servants could not be converted, however, overnight into active constructors. They cannot adapt themselves so as to take quick decisions, overcome difficulties and move forward. It would be disastrous, therefore, to have any rigid regimentation when we have neither talent nor machinery to undertake such an ambitious task. Nor are we a disciplined nation to co-operate in such rigid controls. Such a regimentation can only end in disaster. Over-centralisation is not the thing for India at this stage.

It should not be forgotten that about 62 p.c. of the expenditure to be incurred is on Government account with direct Government control. Only the other 38 p.c. is left to private enterprise. It is not necessary to have rigid regimentation over the complete Plan since much the bigger sector is already proposed to be under Government control.

It is accordingly urged that we should try to use other simpler methods to achieve the same object. For instance, foreign trade may be regulated through tariffs. The growth of industries is to be promoted by creating favourable conditions for them through taxation structure and such other means. Inflation or deflation is to be met through contraction or expansion of credits. These are all orthodox methods which have been tried all over the world with great success. Why then make a radical change which might arrest rather than promote progress?

When we cite Russia, we forget that Russia is not

a democratic country like India. Therefore, the methods adopted there would not work here.

### Board of Trade

But what may be suggested here is the constitution of a Board of Trade, not necessarily on the English model. Its Chairman may or may not be a Minister. If he is not a Minister, then he can be its permanent chairman. But this should be a permanent body the composition of which would not change with a change of the Government.

Its function would be to remove all obstacles in the way of increased production. It will create targets for the country for production, exports and imports, and will watch and guide progress. It should direct by its advice industry and the country in all economic matters. It would help in importing capital goods, bringing out and also training technicians, in raising capital, preparing statistics and giving technical advice on all matters when it is sought. In brief, it would function for the purpose of promoting the economic prosperity of the country as a whole.

The chairman of the Board of Trade would generally be a man who has practical experience of production. Difficulties of the industry that may arise from time to time will be examined by it and help, where it is necessary and when the case is deserving, will be given. A Tariff Board may also function under it. The Tariff Board too will be a permanent body which will take up cases, examine them and give its decision immediately.

The Chairman of the Board of Trade will have access to all the departments and his advice will be given due weight by the departments concerned. It



will not control any industrial activities directly, but indirectly it will do so by its advice and directives. Thus while it will function purely as an Advisory Body to promote projects, its influence is bound to be great.

### **Board of Agriculture**

But to expand agriculture we shall have to constitute another Board—a Board of Agriculture. This again must be a permanent body composed of experts with a permanent chairman. Its functions, except in so far as they differ on account of its peculiar circumstances from those of the Board of Trade, will be more or less similar. The Hydro-electric and Irrigation projects may be put under the charge of a separate corporation like the T.V.A.

At any rate, for the first five years we should try a system that has already been tried elsewhere and see in what way it will have to be modified to suit our circumstances after the termination of the first period.

### **Next Five Years**

The next five-year Plan may have to be more ambitious. But we shall have better experience of planning later on and thus there should be no difficulty in undertaking a far bigger project. We may also be in a position to create a different kind of organisation in the light of the experience gained within the first five years.

This Plan should step up our production to the following extent, besides bringing about an expansion in other directions like transport, communication, and the manufacture of chemicals, electrical goods, etc.



	Normal Prod. or Capacity.	Increase in Prod.	Total
Food-grains	48 Million Tons	9 Million Tons	57 Million Tons
Cane	48½ " Tons	32½ " Tons	81 " Tons
Cotton	3.2 " Bales	2 " Bales	5.2 " Bales
Cloth	5,000 " Yards	4,000 " Yards	9,000 " Yards
Steel	1.2 " Tons	1.5 " Tons	2.7 " Tons
Fertilizers	20,000 " "	1.5 " "	1.7 " "
Sugar	1 " "	0.6 " "	1.6 " "
Gur	3.8½ " "	2.6 " "	6.5 " "
Paper	87,500 "	1,62,000 "	2,49,500 "
Cement	2.3 " "	2.0 " "	4.0 " "
Coal	32 " "	16 " "	48 " "
Hydro-electricity	.5 " kw.	1.8 " kw.	2.3 " kw.
Thermal Energy	1 " "	2 " "	3 " "

In Russia, planning in the first five years had to be undertaken at the cost of the people's comfort and standard of life whereas what is proposed here is to guarantee, even in the first instance, adequate food and clothing. In the second place, due provision is made for all basic needs like steel, coal, cement and power.

We would have thus at the end of the first years laid a solid foundation for future planning. It is a well-balanced plan as a whole, since it checks inflation, creates more comfort, and lays a strong foundation for future expansion. We shall safely be able to undertake more ambitious schemes in the next five years.

### **Distribution of New Wealth**

There is another point which requires elucidation. What of the distribution of the new wealth? If it remains in the hands of a few it must make the rich richer, the poor poorer. How are we to obtain a better distribution of the new wealth?

If we look into the sources of the proposed increased wealth, we find that about fifty per cent of it comes through agriculture, cottage industries and such vocations as are controlled and owned by Government and another fifty per cent from trade and industry. Since the former fifty per cent wealth is either produced by the masses or through Government agencies, the question of its distribution hardly arises. It is only the other half of the new wealth that is expected to be derived from industries, mining, and trade that needs better distribution.

But here again a good part of the new enterprise is likely to be owned, if not managed, by Government. There are already indications of public sentiment favouring nationalisation of basic and key industries. Private capital may feel even shy in coming forward

for investment in such projects as look like being earmarked for Government ownership. Unless, therefore, the Government subsequently decides to change its policy, it would be advisable to reserve such projects as are favoured for nationalisation, mainly for Government investment.

### State Management

As regards management, however, it should not be made a purely departmental show of Government.

While, therefore, State participation in investment or even complete ownership of ventures of the above category would be welcome, it would be unwise to leave management to a State agency, since this is bound to lead to inefficiency, dilatoriness and an eventual loss to the tax-payer and the consumer. Railways, telegraphs, telephones and the fertilizer manufacturing projects—all are the examples to the point.

On the other hand, the Reserve Bank is a semi-government institution not owned directly by Government and yet not managed solely by private enterprise. This makes another example which in our future plans we may safely adopt as a model.

To run such projects, the best agency would be independent corporations owned solely and mainly by Government but manned by directors with talents, integrity and technical knowledge functioning on behalf of Government as the Directors of the Bank of England do on behalf of the public exchequer. The selection of these directors should not be on any communal, provincial or political basis. The only basis of such selections should be merit. The terms to be offered to such directors should be solely at the discretion of Government.

The capital of such concerns as are likely to be



owned by Government and managed by such corporations may amount to nearly 100 crores. Thus only about 30 per cent of the total investment is likely to be owned by private enterprise. Of this, again, another 100 crores will be invested in cottage and small miscellaneous industries, leaving only 22 per cent of the total for investment in industries owned by general shareholders.

### **Yield on Private Capital**

But even out of the yield on this, a substantial portion will go towards wages, insurance and other charges. Careful calculations made from the balance-sheets of various concerns show that out of the total wealth produced, only about 20 per cent is retained by the industry, and this again only in palmy days. A part of this is distributed and a part goes back either to reserves or is ploughed back into the business. Where it goes back into business, it helps to that extent in creating new expansion. Where it goes towards distribution in the shape of dividends, further taxation is levied on the individual incomes where the incomes are high.

If we maintain a pattern of taxation which promotes savings, encourages investment, discourages accumulation of large personal wealth, there is hardly the danger even of maintaining wider disparities in society—far less of creating new ones. The best way, therefore, to keep the disparities within reasonable limits is to maintain a scientific tax structure and spend as much as the finances of the nation permit on social and other projects.

### **Required Man-power**

It will be interesting to make a rough estimate of

the man-power employed in the new expansion. It is rather difficult to compile a correct estimate. But we would not be rash in estimating that agriculture and afforestation alone should absorb an extra man-power of more than twelve lakh persons. Apart from the reclamation of lands creating a non-recurring demand for labour, the regular operations in connection with cultivation or plantation, irrigation, manuring and handling of the increased production will necessitate this employment, making allowance for the use of machines to some extent on farms.

Looking to the industrial side, an attempt has been made to estimate new employment as follows:—

Cotton Textiles	2,50,000
Iron and Steel	50,000
Fertilizers	50,000
Cement	30,000
Coal	1,20,000
Sugar	20,000
Paper	24,000
Other industries	1,50,000
	—
Total:	6,94,000

The labour employed in cottage industries as well as transport and communication will be extra. The total may be taken as about 1 million.

It is difficult to estimate the labour required for the production of some of the raw materials, and the handling of the new goods in what are described as services and tertiary occupations. All this may easily absorb another 7 to 8 lakhs, making the grand total 3 million. Since of the new employment very nearly 40 per cent will have to be allocated to agriculture, the picture cannot be called an ideal one. Our efforts should



be to reduce the burden of population on the land. But this could be easily adjusted later on if we introduce mechanisation in agriculture and re-employ the spare labour in the social and industrial spheres.

Over and above the above figures which represent a recurring charge on the population, we have also to provide for labour for the purpose of building up the new capital projects. We have provided altogether an expenditure of 704 crores to be spent in India to be spread over five years. We shall thus be spending roughly 39 lakhs per day on coal, cement, iron, lime, bricks, labour and supervision.

It is difficult to say how much new employment this would create but we would not be far wrong if we estimated additional employment under this head of 6 lakh persons. This too may be treated as a recurring charge on our labour force since the planning will continue for many years to come, and as the new production comes into being there will be greater and greater demand for new labour, the only check being rationalisation and mechanisation.

With a recurring demand of about 3 million and non-recurring of 6 lakhs, we may assume a new employment of nearly 3.6 million persons. Although this may appear a small number for a population of 320 millions, it is by no means a small demand. It should not be forgotten that the span of life of an Indian is small and with bad climate, absenteeism due to festivals, bad habits of workers and small output of work, the new employment of three millions is quite a big target. We may even experience a scarcity of labour until we introduce modern methods of work, the workers adopt the habit of hard work, and health and expectation of life are improved.



### Purchases Abroad

Finally, the question may be asked: Would equipment be available for construction of the various industries visualised in the Plan? According to the figures in the Plan, it is estimated that out of nearly 1,220 crores of new investment, 517 crores will have to be spent in foreign countries. For five years, the average comes to about 103 crores. It is true that the position of delivery in England is not at all hopeful. And yet, to purchase goods worth 103 crores annually from foreign countries, specially America, is a very modest task. Of course, we have to do proper planning, because apart from equipments we shall need large amounts of steel and cement which, it is hoped, would be available in India itself. It will, however, be necessary to make a proper inventory of our specific needs and then, if necessary, send a Purchase Mission to America to arrange for plants. A portion of the equipment will have to be bought by the private parties themselves. But that is not so substantial. Since a substantial part of the investment is to be made on behalf of the Government, the sending of a Purchase Mission abroad to buy equipment will be absolutely necessary.

# SUMMARY OF APPENDICES

	Capital Investment		Foreign Exchange		Addition to Existing Production		Additional Production		Labour	Transport equipment, 20 tons each
	Rs. Crores	Rs. Crores	Rs. Crores	Rs. Crores	tons	million tons	million tons	million tons		
1. Agriculture—										
(a) Foodgrains	248.2	130	203	48 million tons	9 million tons	1 million	25,000	11,20,000	1,10,000	
(b) Sugarcane	22.6		19	43.5 "	23.8 "					
(c) Cotton	72		4							
2. Afforestation	7									
3. Industry and Mining										
(a) Cotton Textile Industry										
(i) Iron and Steel	79	17	115	5,000 million yds.	4,000 million yds.	1 million	250,000			
(ii) Fertilisers	72	53	43	12 million tons	1.5 million tons	2.5 million	80,000			
(iii) Chemicals	54	34	59	25,000 tons			50,000			
(iv) Electrical Goods	43	24	39							
(v) Capital Goods	17	6	5							
(vi) Sugar	59	39	29							
(b) Other	34	8	11.5	3 million tons	0 million tons		40,000			
(i) Paper	10	—	20	2.65 "	2.65 "		10,000			
(ii) Cement	22.4	15	9.5	87,000 tons	1,03,000 tons	.5 million	40,000			
(iii) Miscellaneous	28	14	9				20,000			
(iv) Cottage Industries	60	24	30	2.5 million tons	2.5 million tons	1.5 "	24,000			
(v) Coal	60	8	40				20,000			
(vi) Oil	15	8	22				80,000			
4. Power (Thermal and Hydel)	50 (Thermal)	20 (Hydel)	40	32 million tons	10 million tons (cast)		1,20,000			
5. Transport and Communication										
(a) Railways	130	70	60	1.5 million t.c.	2.8 million t.c.	4 million (for all-India)	30,000			
(b) Shipping and Ship-building	25	20	10							
(c) Roads	73	10	—							
(d) Communication	20	15	—							
6. Housing, Hospitals, etc.	120	26	—							
7. Tourist Traffic	8	2	1							
8. Tertiary Occupations	—	—	200							
<b>Total</b>	<b>1,271.4</b>	<b>6.10</b>	<b>1,261.7</b>							

11. B.—The figures relating to the Cotton Textile Industry are based on the adoption of 100 spindles working "in all say six" cotton spindles, on an average event of 22". It will be observed that the number of spindles required, only such as will be required to be turned by hand, in the case of industry and when it is made separately, as in the case of coal. Allowance for other ways—by the use of hand, handloom, etc., and major traffic. With a turn-out of about 10 to 12, a 100 spindles, each 60,000 spindles should prove quite adequate.





## PROTECTION

"Lord Morley came up to us, and taking me aside asked if I would like to succeed Lord Minto as Viceroy of India. I told him that to do so would be the realization of the dream of my life. What struck me as curious at the time was that the only question he put to me was whether I was a free-trader and I was honestly able to say that I was then and had always been a free-trader. He told me that I might regard the matter as settled."

—LORD HARDINGE, *My Indian Years* : 1910-16.



## SOLVENCY THROUGH PRODUCTION\*

It is my proud privilege to accord to your Excellency† a hearty welcome on behalf of Indian Commerce and Industry as represented by the Federation. We fully appreciate the honour you have done us—not for the first time—by your presence as the Viceroy and Governor-General of India at our Annual Meeting, and I respectfully tender to your Excellency our grateful thanks for your very kind response to our invitation. I also extend our welcome and thanks to the Members of your Council whom we are so glad to find in our midst to-day.

Our welcome to-day is coupled with the most sincere congratulation on your Excellency's Providential escape from the recent outrage which sought to victimise you. No condemnation could be too strong for any such attempt; and we wish it were more widely known and realised than it apparently is that every such misdeed means a setback to the country's cause. It is so immensely satisfactory to find that there has been universal reprobation of the dastardly deed throughout the country, and we as a body, no less interested in the well-being and prosperity of our motherland than any other section of the public,

\*Presidential Address at the Third Annual Meeting of the Federation of Indian Chamber of Commerce and Industry, held on 14th February, 1930 at Delhi.

†Lord Irwin.



should like to express our utter abhorrence of every such resort to violence, and to say that a worse dis-service to the country could not be conceived.

My predecessor in office referred in his speech last year to the unjust exclusion of Indian firms and nationals from the commercial organisations in London. I am glad to be able to say that since then progress has been made, for which the credit is due in a very large measure to your Excellency. Indian commercial interests feel indebted to your Excellency for the personal interest you have been taking in the matter, and for the beginning of a new chapter to which your efforts have contributed. I cannot help thinking in this connection of the conciliatory speech of Sir Stephen Demetriadi\*, who set the ball rolling, and who deserves our thanks for the attitude he has all along taken.

### Industrial Strife

A year has gone by since we last met, and for India its record has been anything but satisfactory. It has been a year of hopes deferred, of progress delayed, with no improvement in the situation, either economic or political, and with a positive set-back, at least so far as industry is concerned. Discontent and unrest have been deeper than ever and in the industrial sphere have found vent in general strikes affecting cotton and jute in Bombay and Calcutta respectively, and sporadic disturbances at other centres. Figures are wanting which could give a full measure of the loss caused by such strikes to both employers and employed, but that it must have been considerable admits of little doubt.

\*Of Ralli Brothers, who was Chairman of the Council of the London Chamber of Commerce, 1926-28 and subsequently its Vice-President and President.

There was a prompt settlement of the strike in Calcutta, and jute came out more or less unscathed. This was due to the prosperous condition of the industry which did not think it advantageous to prolong the strike and could well afford to make a generous response to labour demands. Things were quite different in Bombay, and with the best intention in the world, it could not emulate Calcutta in this respect. There the industry was, as it still is, on the verge of death. And in the absence of the necessary margin on which to draw, it continued to look with mixed feelings on the situation, with the result that the strike was unduly prolonged and broke down only when labour began to starve. But if there is no general strike for the moment, it does not mean that there is no discontent or unrest. A more correct reading of the situation perhaps is that the fire has not been extinguished, it is only smouldering.

There are aspects of the problem which my association with the inquiry\* into labour conditions precludes me from dealing with here. But this I will say that in so far as both capital and labour in an industry have the same complaint, viz., malnutrition, traceable to the same cause, viz., general depression in the country, the worst thing they can possibly do is to fight and try to annihilate each other. There are undoubtedly more than one factor making for unrest on the part of industrial labour. In the main, there is the sense of a new awakening, a growing desire to raise the standard of living. This is a hopeful sign. The pity, however, is that the fund, out of which all dividend is to come, is so small. Every national activity, and industry most of all, finds itself in the

\*Mr. Birla was a member of the Royal Commission on Labour appointed with Mr. Whitley, formerly Speaker of the House of Commons as its Chairman.



grip of a general depression, the source from which all evil flows; and it is no wonder there is so much discord and strife around us.

The desire of labour for a larger income or better conditions of life is quite legitimate and laudable. But how to find the wherewithal to meet their demand is a problem yet to be solved, and any deferment of the solution essentially means trouble of a most acute kind. The situation must, therefore, be faced boldly and sympathetically. True there are industries, like jute and tea, which have been enjoying, at least until recently, a run of prosperity, but, then, they derive their strength from a foreign source. All other industries which have necessarily to depend on the home market are in the throes of depression. In the circumstances, are they not right who contend that there can be no permanent and general improvement in the condition of labour unless there is all-round prosperity in the country? There must be an increase in the purchasing power of the people and thus a greater demand for the service which industry renders, before there can be any real and lasting improvement in the condition of industrial labour.

Of that industrial prosperity, however, there are no signs on the horizon. Rather we seem to be losing ground even in fields from which we thought we could not be ousted. I refer to the foreign inroads in recent years on our agricultural industry which is the mainstay of our population. The large imports of wheat and imports of rice from foreign countries during the last four years are a new, and I may add, an alarming phenomenon in the economic history of India. The question which many serious-minded persons have been asking themselves is, how is it that the Australian grower of wheat can undersell the Punjab



peasant in the Indian market and wrest so much territory from him? If it be true, as some maintain, that the imports are due to increased consumption, how is it that the Indian cultivator cannot produce enough to meet the demand?

### India's Fiscal Policy

Let those who are best qualified for such an attempt try to find an answer to the question, and the larger question concerning the general depression from which India is suffering. While I am not sure of the precise answer, I am sure of the direction in which it can be found. Our fiscal policy does not suit our requirements and it is in this direction that the causes of our depression have to be traced.

India is a debtor country, with huge foreign liabilities, and one of her urgent and permanent needs is the maintenance of a large excess of exports over imports for discharging her annual obligations under this head, if for no other purpose. That being so, our fiscal policy should be one shaped in accordance with our peculiar needs and having for its key-stone the principle that Indian trade and industry and agriculture should be so fostered as to ensure a self-contained India in many directions and make it possible for us after meeting our own requirements to maintain a larger surplus of exports than we are doing at present.

My own feeling and the feeling of a very large section of the Indian mercantile community is that our present fiscal policy does not answer that description, and it is therefore that the country is faring so ill. Our industries are anaemic because of want of proper nourishment and that nourishment cannot come so long as the people's purchasing power remains

at the present low level. A higher standard of life is certainly a great desideratum, and with the desire or ambition to attain it, we cannot but have the fullest sympathy; but how to realize it in view of our liability to maintain a large and a regular favourable balance of trade, is a riddle yet to be solved. It could be solved, but not under the present fiscal policy of the Government.

### Foreign Liabilities

I referred a little above to our huge foreign liabilities. I intend developing the point at some length in the hope that it will stimulate that interest in the subject which it so richly deserves. As it does not lend itself to a statistical treatment our blue-books take no notice of it. The ordinary publicist is aware of the existence of such liabilities, but about its implications not many seem to be much concerned. The time has come when those interested in the economic well-being of the country should look a little more closely into the matter and try to find out its bearings on our economic condition, both present and future.

I would make one thing clear at the outset. I have nothing to say for or against foreign liabilities as such. Any transaction, individual or national, must be judged on its own merits. To find out whether it has been useful or otherwise one has to look to the circumstances of the case and weigh the good against the evil. I would apply the same test to our foreign liabilities.

To my mind, we can be said to have made a good bargain only if we have borrowed the money on our own terms and applied it for increasing the general productivity of the country. The transaction could be called a success from our standpoint, only if it estab-



lished us after a time in a position not only to pay off the amount borrowed but also to build up a reserve which after meeting our own capital requirements may be utilised for making investments abroad. Judged by this criterion, how do our liabilities stand?

### £1000 Million

The first thing to be ascertained is their extent. The Associated Chambers of Commerce in their evidence before the Simon Commission\* have assumed 1,000 million sterling as the total of British investments in India. This gives us a figure which we may take as the basis of our argument. It presumably includes the amount invested in Government loans. A good portion of it is no doubt the ordinary business investment, and it may be contended that it does not carry with it any liability to repay it so far as the country is concerned, because if the business is a success the investor gets his return and if it is a failure, he loses his money—still, the effect thereof on the economics of India is the same as, or similar to, that of the other foreign liabilities of the country. An equally good portion is invested in private loans, debentures, preference shares, etc., carrying a fixed interest; and for the payment of the debt represented by such investment, the country is directly responsible, or to make it clearer, the payment has to be made out of the national wealth. Calculated at 6 per cent. the annual rate of interest or return on the amount mentioned by the Associated Chambers comes to about 60 million sterling or about 80 crores of rupees.

There are other foreign liabilities, popularly known as Home Charges, to meet which there is an annual remittance to the Secretary of State of about 40 crores.

\*The Statutory Commission appointed in November, 1928 with Sir John (later Lord) Simon as its Chairman.



Deducting from this about 17 crores which represents interest paid on account of Government borrowings, for as presumably Government borrowings are already included in the figure of the Associated Chambers of Commerce, we cannot count the same liability twice over, a balance of about 23 crores remains.

There are yet other payments against services such as transport, insurance, professional work, etc., which increase our liability to a much larger figure. But I have deliberately omitted them because to acquire or not to acquire other people's services is a matter which could be said to rest entirely at our discretion. I have taken only those liabilities which we have definitely incurred and for the redemption of which we must make annual remittances. And if we took only the above mentioned two items, viz., 80+23 crores, we have an annual liability for remittance abroad of about 100 crores.

I would invite the serious attention of all well-wishers of the country to the magnitude of the figure and the pace at which it is multiplying. In 1900-01 Government's total foreign borrowing amounted to about 200 crores. In 1929 it stood at 470 crores. In 1900 our Home Charges excluding Railway Charges and interest amounted to 10 crores; they are now about 19 crores and taken at the old rate of exchange about 22 crores. An estimate of total British investments in India up to and including 1910 put it at about 365 million sterling. The figure, as taken by the Associated Chambers, is now about 1,000 million sterling. I am no alarmist, but the issues involved are so momentous that I cannot help asking the country to take note of these figures and ponder over their significance.

### No Flow From Outside

A question to be considered in this connection is the way in which all this foreign capital came to be imported. The Associated Chambers in their representation throw no light on it. A layman who looks into our trade returns for the last 50 years does not come across any figures indicating a flow of capital from England or other foreign countries into India. He finds that India has maintained an excess of exports over imports all throughout, with the exception of a few years, and he naturally fails to understand how in the absence of any excess of imports over exports the foreign investor came to be in possession of such a mammoth sum as 1,000 million sterling in India. The only inference he can draw is that the capital was not imported from outside but was earned and re-invested in the country itself from time to time.

In any case, the liability is there and it is daily growing. Every year the visible favourable balance of trade, which, it is true, shows a steady increase, is eaten up by the invisible imports represented by our obligations in this behalf. On an average, the annual excess of exports over imports (private) during the period 1899-1900—1903-04 was about 30 crores, which sufficed for the necessary remittance. During the period 1923-24—1927-28, the corresponding balance has been about 67 crores, and yet we have had to experience difficulty in making remittances for what is called the "Home Charges"\*. Even with such a large visible balance of trade in our favour, Government has had to decimate our currency reserves and contract currency in order to put funds at the disposal of the Secretary of State because of serious competition from

\*Payments which India had to make in England on account of interest on Sterling loans, pensions, purchase of stores, etc.



private remitters who seem to have only lately taken to the practice of remitting abroad a good portion of their earnings which, in the past, they used to re-invest. Unless India has an unusually large balance of trade in her favour, the Government are likely to find the problem of Home remittances very perplexing indeed in the near future.

But the country must think of her own obligations and the way she is going to meet them. She has not felt the pinch so far, mainly because, as I said, the yield on British capital has found re-investment in India itself. India's case has been more or less analogous to that of an individual who cannot pay even the interest on the money he has borrowed and has to borrow still further to enable him to do so. Liability can thus be postponed but cannot be extinguished. One day the account must be settled and the consequence of a policy of living on such borrowings faced.

Let us clearly understand what this means. It is a question of simple arithmetic how the paltry sum of a rupee invested at 12% compound interest becomes a lakh at the end of 100 years. At 6% compound interest, the principal is doubled in 12 years. Taking the total foreign investments to be about 1,000 million sterling and assuming that India may not be able to remit the annual return on the sum, it should be doubled by 1942 and quadrupled by 1954. It may not be pleasant to contemplate, but the indications at present are that we shall be stepping into the other half of this century with a crushing burden on our back of a huge liability and with it an annual commitment, to discharge which India must maintain an excess of exports over imports to an extent beyond our present means. The consequence of failure to maintain such large exports could be more easily imagined than described.



It may be said that a large portion of our borrowings has after all been invested in productive projects and therefore the prospect cannot be so gloomy. But is any appreciable benefit—which should be the logical consequence of such a situation—at all perceptible so far? The argument advanced is that the country gets more from her productive investments than she has to pay for her borrowings. Such a situation must, as a matter of course, in respect of Government investments lighten the tax-payer's burden, and in respect of private investments increase the real national income. But has that happened? It has not; because in the first place, every so-called productive investment is not adding to the real national income, and secondly, whatever little benefit is derived from it is eaten up by the extravagant administrative expenditure. We are, therefore, in no way, better off.

### **Unable to Meet Liabilities**

It is no consolation to hear that but for these productive investments, Government expenditure and consequently taxation would have further increased. Who could say that the so-called productive investments themselves have not been among the contributory causes of a top-heavy administration? The matter, however, requires a much more detailed examination than I can attempt within the short time at my disposal. Whatever our corresponding investments in India, whether productive or unproductive, the fact remains that we are not in a position at present to meet our liabilities.

Instances could be cited of other countries which after a period of borrowings have either stopped borrowing entirely and begun to invest abroad or have reduced the volume of yearly borrowings and are gra-

dually moving towards a stage like that of America which from being a debtor country has been able to convert herself into a creditor country. At the end of 1913, America, according to a reliable estimate, owed abroad \$4,500,000,000 (net). A decade later, she was a net creditor nation for \$3,500,000,000 apart from the \$11,800,000,000 due from the Allies to the U. S. Government. There has been a similar transformation in the case of Japan.

But what is our position? It is this. We are not in a position to-day to pay off our debts or even to discharge our annual liability. To talk of finding a surplus for investments abroad under the circumstances will be simply an absurdity. We have been having recourse to the foreign market for more than 70 years, and yet so little is our strength or stamina to-day that we cannot think of being able to stand without that crutch or do without fresh borrowing every year.

There are men who would have us believe that things are far otherwise and that Indian prosperity has been growing at a phenomenal pace. It has become the fashion in such quarters to pour ridicule on those who maintain a different proposition. I would rather risk such ridicule and be dubbed a Jeremiah than shut my eyes to the facts that stare me in the face.

If there are men who have exaggerated notions about the surplus that is being annually created and rendered available for investment in the country, I would only refer them to the daily experience of Indian trade and industry in this respect. The surplus could only come out of the savings of the people, and the grim reality is that they have not enough even for their daily needs. The realities of Indian life are that the masses are steeped in deep poverty, that they are finding taxation an unbearable burden, that their pur-



chasing power shows no increase and that it is impossible to raise the standard of life even by a little, under the existing state of things.

### India's Poverty

Figures are marshalled at times to indicate India's growing prosperity when in reality they have no relevancy whatsoever. Exports or imports in which the masses are not interested as producers or consumers are no barometer of their prosperity. India's poverty is too hard a reality for all, and no statistics can succeed in putting a permanent gloss on it or explaining it away. In the words of the Rt. Hon'ble Mr. Ramsay Macdonald, "the poverty of India is not an opinion, it is a fact."

What then is the solution?

I am sure that all the schemes that may be devised in this connection must centre round one thing, and that is the increase of India's productivity. There is no room for economy or retrenchment so far as our standard of life is concerned. A large retrenchment could, and I submit, should be made in Government expenditure. This applies specially to the army department. In fairness to this country, a good portion of its military expenditure ought to be paid by Great Britain, as the army is partly maintained for Imperial purposes. To quote the present British Premier again, "nine-tenths of the charge of the Army in India is an Imperial charge. Canada, South Africa and Australia should bear it as much as India." But above everything else there is the urgent need of a substantial increase in India's production, and if we are not to head towards disaster, we must adapt our means to that end.

India is mainly an agricultural and partly an industrial country, and if we are to strive towards



attaining a solvent position we must increase our production in both the directions.

### Improvement of Agriculture

The improvement of Indian agriculture has been the subject of an extensive enquiry in recent times, and we are aware of the deep interest taken in the subject by your Excellency. The Report of the Royal Agricultural Commission\* points to several important directions in which reforms are needed, though there is general disappointment at the failure of the Commission to suggest any radical cure for India's agricultural ailment. Their failure, however, is to be ascribed chiefly to the handicap imposed on them by their terms of reference which were characterised by over-cautiousness bordering on timidity. In any case, the fact is deplorable, and I share the disappointment that the achievement of the occasion was so poor as compared with its promise. I would not attempt any enumeration of the measures that are urgently required for putting Indian agriculture on a sound basis, for we all have a fairly good idea of them. What is required most of all is a comprehensive grasp of the problem and boldness in taking the initiative and carrying the needed measures through. The solution of the problem presented by Indian agriculture is a task of the highest statesmanship and we all expect Government to tackle it in that spirit.

### Full Protection Required

Turning to the industrial side, one is struck by the want of correlation between our pressing needs and the fiscal dispensation under which we live. I had the

\*Appointed with Lord Linnithgow as its Chairman, it completed its labours in 1922, recommending, among other things, the establishment of an Imperial Council of Agricultural Research.

privilege of serving on the Fiscal Commission which was appointed to "examine with reference to all the interests concerned, the tariff policy of the Government of India." Five of us including the President\* wrote a minute of dissent differing in their conclusions from the majority consisting of six, mainly because the main recommendation of the latter had been qualified by the condition that Protection should be applied with "discrimination along the lines of the Report." But even that halting recommendation and discriminating Protection is yet to become the guiding principle of the Commerce Department. In fact, if I may say so, the policy pursued during the last few years has been more in the nature of "discriminating Free Trade" than of "discriminating Protection."

Arguments which are utterly irrelevant are often employed to oppose the demand for full protection. One of them is the well-known plea that it is opposed to the consumer's interest. I cannot speak of the conditions in other countries, but in India at least the producer and the consumer are not such separate entities, living in water-tight compartments. Every cultivator here is both producer and consumer. Even to-day one-third of the cloth supply is the product of hand-loom and the producer and the consumer are practically the same. To give another instance, a large part of the gur and sugar annually consumed in India is made in her cottages. Speaking of the vast mass of its population, one could really say that in India the functions of producer and consumer are, more often than not, combined in the same individual.

Indians recognised long ago the urgent necessity of giving Protection to their industries, and in the absence of any popular control over the fiscal policy,

\*Sir Ibrahim Rahimtoola.



they had to content themselves with propaganda in favour of Swadeshi and for the boycott of foreign goods. It may be easy to misrepresent the motive of the capitalist when he advocates Protection and to depict him as the arch-enemy of the consumer. But what about the Indian National Congress which is certainly not a capitalist organization? That body at least can be expected to know what is in the consumer's interest and oppose all such demands as go against it. What does the popular propaganda for a boycott of foreign goods mean if not protection of the indigenous industry? India derived her first lessons in economics from British savants who were almost all free-traders and yet she could never bring herself to believe that she could do without Protection. Her fiscal faith is the result of the most mature deliberation on the subject and if she had her way, she would not stop short of giving that faith a concrete shape and form.

### America's Example

It may be permissible here to make a passing reference to the policy pursued by a country like America. So far as general prosperity is concerned, its condition is so different from ours. We are a debtor country and not at all solvent. America is a creditor country which has secured a very large part of the world's gold in recent years. But with all that she does not countenance any proposal of lowering her tariff wall. The world can only pay in kind, and America by keeping her tariff so high, is compelling it to sell its goods in the American market cheaper than it would otherwise have done. The world may fret and fume but America is not to be deflected from her course. The moral for India is plain. If full-fledged Protection is necessary for a creditor country like America, it is all the more so



for a country like ours which is so heavily indebted and is almost floundering in the bog.

Unqualified Protection is India's primary need in her peculiar situation to-day. But I use the word in the most comprehensive sense. Tariffs or bounties are only a part of the policy which I advocate. I plead for Protection by every practical means to agriculture, industry, banking, insurance, marine transport—in fact to every branch of our economic activity. I wish every action of the Government to breathe a national policy, which might be summed up as 'India first and India last'.

### **Position Summarized**

I have tried to describe the situation as it is. The picture presented here is certainly not bright, but it is faithful to the reality. To put the whole thing in a nutshell, let me summarise our position, which is—

(1) that we are a debtor country with large foreign liabilities;

(2) that our present resources are not adequate for a due discharge of our obligations;

(3) that due to our failure to fully discharge our annual obligations, our liability is increasing at a frightful pace;

(4) that unless we are to court disaster, the situation demands the maintenance of a large surplus of net exports to enable us to discharge our annual obligations and pay off, if possible, a portion of our debt;

(5) that the maintenance of such a surplus is only possible by giving an impetus to our productivity, and

(6) that our present fiscal policy can never give the needed impetus to our productivity as it is not designed to that end.

### **New Orientation Wanted**

The first thing to be done, if we are at all anxious to avoid all rocks and shoals ahead, is to give a new tack to our fiscal policy. I have placed before you a few suggestions and probably many more could be made. But the change which I advocate as the first essential of all progress is a change in our fiscal policy. We are all agreed that the fiscal policy which we have been pursuing so far is not in our best interests, but I go further and say that it is not calculated to promote even the interests of those who have made such large investments in the country.

Unfortunately, that fact is not as well realised by them as it ought to be. Our friends of the British commercial community have so far been generally on the wrong side in matters affecting the country's prosperity. Their record from the time of the imposition of the Cotton Excise Duty to that of the deliberate appreciation of the exchange-rate, would attest the truth of this remark. Whenever they have had to make a choice, they have taken a narrow view of the matter, and have given their support to measures which were detrimental to the best interests of the country. In view of their past attitude, I am constrained to address a few words to them in a friendly spirit and I hope they will not misunderstand me.

### **Thistles Cannot Yield Figs**

Men cannot gather figs of thistles, nor can creditors realise their dues from insolvents. A prosperous India alone can redeem her debt, and the policy to be followed in future should be one which makes for her prosperity at every turn. They owe it as much to themselves as to this country, to strive in co-operation with Indians for a new order of things. The legacy



of the past, if allowed to become the model for the future, will never pay them. It will mean the forcing of a situation upon India, in which, with the best intention in the world, she cannot meet her obligations in full.

The present discontent in the country is almost wholly due to the miserable plight in which the people find themselves. The middle class population has to put up the hardest struggle possible to keep body and soul together and are amongst the worst victims of unemployment. The condition of the masses needs no recapitulation. They do not seem to be suffering from unemployment to a similar extent because their standard of living is so low that nothing could possibly be lower.

But things cannot remain as they are. The placid contentment of the masses is already disturbed. Even the worm at a certain stage begins to turn, and the dissatisfaction of the dumb millions, unless its causes are removed, is bound to make itself felt one day. Let all concerned, therefore, reflect calmly and seriously on the subject and adopt in time a far-sighted policy so that the disaster may be averted or at least minimised.

A prosperous India means peace for the world; a famished India a grave menace to it\*.

\*Though of a later date than five of the six speeches that follow, the Address is accorded the first place as expounding the very rationale of Protection.



## II

### THE STEEL INDUSTRY\*

Sir, I feel, that after the eloquent speeches delivered by my Honourable friends Mr. Chetty and Mr. Moore it is hardly necessary for me to say anything on this subject. But there are certain points which require further elucidation and I rise to support the amendment of my Honourable friend Mr. Jamnadas Mehta that this matter be referred back to the Select Committee. When this Bill was last discussed in this House I could see that certain Members entertained misgivings about the Bill that it involved Imperial Preference. At that time I deliberately avoided taking part in the debate, because I wanted to wait and learn more in the Select Committee; but after hearing all the arguments in favour of the differential duty, I have come to the conclusion that this Bill as proposed by the Government does involve the policy of Imperial Preference and that on economic grounds as well it is very unsatisfactory.

I must congratulate my Honourable friend Sir Charles Innes on his being able to capture the Leader† of the Independent Party. I only hope that he has been able to get only the Leader and not his followers. My great consolation is that he has not had success with the other two most popular parties in the House. To

\* Speech in the Indian Legislative Assembly on 14th February, 1937, on the Steel Industry (Protection) Bill.

†Mr. M. A. Jinnah.

come to the point, I repeat that this Bill as put forward before the House does involve a policy of Imperial Preference and at the same time on economic grounds as well it is defective. It may be claimed by my Honourable friend Sir Charles Innes that the differential duties are sought to be imposed, not on the basis of the country of origin of the goods, but on the different qualities of the goods. But I may point out, as I did in the Select Committee, that just as England produces standard quality steel, in the same manner the Continent also produces standard quality steel. Similarly, what they call rejections of non-standard quality are also produced in Great Britain, and therefore under the proposed scheme any non-standard goods coming from England will have to pay a lower rate of duty than the standard Continental steel imported into India.

#### **Preference to U. K.**

It is very clear that the duty is sought to be imposed on the basis of the country of origin and not on the basis of the quality of goods and therefore it is pure and simple Imperial Preference which I think the House ought to oppose tooth and nail. I would not mind giving preference to the United Kingdom manufacturer if it was a question of reciprocity or if it did not involve hitting the Indian consumer. But under the scheme, as proposed by the Government, it could be clearly proved by figures that the Indian consumer has to pay a higher price in order to protect the British manufacturer. In this connection it would be very interesting just to have a glance at the rates at which British steel and Continental steel could be landed without the duties being paid. Structural sections coming from Great Britain will cost Rs. 104 per ton against Continental Rs. 85. Similarly bars, British



manufactured, will cost Rs. 108 per ton against Continental Rs. 90; British plates Rs. 115 against Continental Rs. 92; British black sheets Rs. 153 against Continental Rs. 122. It has been explained to us that standard steel ought to cost Rs. 7 more than non-standard. That means that we ought to get non-standard steel Rs. 7 cheaper than standard steel. On account of economical production on the Continent, if we have to pay no duty at all, we can get Continental steel in structural sections and bars Rs. 18 lower, plates Rs. 23 lower and black sheets Rs. 31 lower than corresponding United Kingdom steel products. Now a thing which costs only Rs. 7 more, standard steel, which ought to cost only Rs. 7 more than non-standard steel, will cost under the present scheme Rs. 23 and Rs. 31 higher for plates and black sheets respectively and Rs. 18 higher for structural sections and bars. That very clearly shows that in order to protect the British manufacturer, the Indian consumer has to pay Rs. 11 per ton extra for English structural sections and bars and Rs. 16 and 24 per ton extra for English plates and black sheets respectively. It is abundantly clear that under the scheme proposed by the Government the Indian consumer is taxed in order to protect the British manufacturer; and thus this policy does involve the principle of Imperial Preference and ought therefore to be rejected.

### Lowering of Quality

But on economic grounds as well, this scheme as I said is very unsatisfactory. I pointed out all these defects in the Select Committee and I think I ought to repeat them on the floor of this House. The first main objection is this, that under a differential duty the United Kingdom manufacturers will be tempted to



lower their quality. It is said in the Tariff Board's Report that already English manufacturers have started using semi-finished articles manufactured on the Continent and there is no guarantee that in future this practice will not go on increasing. I can say this on the authority of Sir Charles Innes himself, who was good enough to give us a note in the Select Committee. He discussed this question and said:

"This danger exists and must be accepted as incidental to the Tariff Board's scheme".

I pointed out that under the scheme there is a great danger of the rejections being imported in large quantities into India, and he said:

"This danger exists and must be accepted. ...."

The Honourable Sir Charles Innes: Here, Sir, I rise to a point of order. I said nothing about the danger of their coming in large quantities. If the Honourable Member quoted me, let him quote me correctly.

Mr. Birla: Sir, I am reading from the note that the Honourable Member supplied and he can correct me if I misquote him:

"This danger exists and must be accepted as incidental to the Tariff Board's scheme, but the danger is not serious, for the quantity of such rejections imported into India is likely to be small. British manufacturers get a lower price for rejections and try to keep down the percentage of them as much as possible. Also any attempt to flood the market with rejections would injure the reputation of their steel."

He says this and then follows it up with something which is very interesting. He proceeds to say:

"The British manufacturer already has an outlet for rejections in the United Kingdom and in his other preferential markets."

The cat is out of the bag. If we were to provide a

preferential market in India, what guarantee is there that we would not have larger quantities of rejections being dumped in India. That is a very serious danger against which we have to provide.

I may refer to a very recent incident concerning some textile machinery imported into India, in which there was a deliberate deterioration of the quality. During the War a very good machine supplier, who used to keep his standard very high, had to lower it because he found that he had to compete with the products of his own country. This is an example before us, therefore it is not unlikely, it is rather very probable, that under an assured market for 7 years the United Kingdom manufacturers might deteriorate their quality and start dumping rejection goods on this country. (An Honourable Member: "You have power to increase the basic duty under the Bill.")

#### Fall in U. K. Prices

There is another danger, that is, a fall in the prices of the United Kingdom products. This matter has been discussed by the Tariff Board and they considered that it was likely on account of the modernisation of works, competition with the Continent and other factors and that there was likelihood of a fall in United Kingdom prices. I admit that Sir Charles Innes has provided against that. He has provided that in such cases the duty on United Kingdom products might be increased, but I submit that this amounts to a condemnation of his own scheme.

I have got one more point to put before Sir Charles Innes. It has been brought to our notice that the question of standard and non-standard steel does not exist at all except in structural sections. If that is so, if the question of standard and non-standard steel



does not arise in black sheets, in plates, and in bars, then I should like to ask Sir Charles Innes why he is so keen on imposing differential duties on these three qualities. I have been told by iron and steel merchants that except in structural sections there is no such thing as standard and non-standard steel, and that the Continental steel is as good as the British.

### Weighted Average Scheme

To come to our scheme, unfortunately I do not find my name included in the signatories, because I was not present, and you, Sir, were not kind enough to let my name go into the note of dissent.....

Mr. President: Order, order. I cannot allow any other Honourable Member to put his signature down for him.

Mr. Birla: Sir, I did not make any complaint. I simply wanted to bring this matter to the notice of the House.

Three objections, three criticisms have been levelled against the amendment as put forward by my Honourable friend Mr. Chetty. One is that it is quite possible that under the weighted average scheme Tata's might not get adequate protection. To this I would only say that this argument has not been supported by the Tariff Board. Even Sir Charles Innes did not say that under the weighted average Tata's would not be getting sufficient protection. The other argument that has been levelled against the weighted average is that the consumer might have to pay a higher price than he would have to pay under differential duties. With all the respect due to my Honourable friend, Mr. Jinnah and Sir Charles Innes, I submit that this is not correct. I would like in this connection to put forward before the House some figures



and I think they will conclusively prove that this argument has no foundation in fact. Under the differential duties the revenue of the Government would be Rs. 23,39,846 from the duties charged on the imports from United Kingdom, while Rs. 1,19,25,000 will be realised from the duties on Continental imports. That means a total of about Rs. 1,42,00,000 which would be the net burden on the consumer if we are to judge it from the Customs figures. Against that under the weighted average they will realise Rs. 31,78,000 from United Kingdom imports and Rs. 1,08,00,000 from Continental imports. That is, about Rs. 1,39,00,000 against about Rs. 1,42,00,000 which means a net saving of nearly 3 lakhs to the consumer, if we were to adopt the weighted average scheme\*.

### A Baseless Argument

It has been pointed out in this connection that although these figures may be correct, the middleman who imports his goods from the Continent charges the same price at which the goods from the United Kingdom are sold, and pockets the margin between the two prices. Certain figures showing the prices ruling over 1925 and a part of 1926 were placed before us, but I think that since we are discussing the matter in 1927 we ought to take the latest figures. I have got before me figures showing that in the month of September the prices of Continental beams were Rs. 115. (An Honourable Member: "What year?") 1926. You will not find that in your book. The prices of

\*According to the Tariff Board's calculations, the weighted average duty to be imposed on all steel structural sections—to take an example—should have been Rs. 25 per ton. Some Members, including Mr. Chetty, suggested that this should consist of two parts—Rs. 19 as a basic duty to remain unalterable and Rs. 6 as an additional duty to be increased or decreased by the Governor-General-in-Council as warranted by the course of British and Continental prices.

Continental beams were 115, of Continental angles 120, of bars 125, of plates 125, and of black sheets 140. Now, the Continental steel under Table 23 of the Tariff Board Report, under the new weighted average scheme should cost 111 for structural sections; against that, the prices of structural sections ruled in Bombay at 115 for beams and 120 for angles, and we ought to keep in mind that the existing duty is Rs. 30 per ton, while the proposed duty will be Rs. 25, that is Rs. 5 less. That means on the duty being reduced a further drop of Rs. 5 per ton will take place. Against bars at Rs. 125 under the weighted average, the price of bars in Bombay was Rs. 125 under the existing tariff. That means they must be incurring a loss. Plates which ought to be under weighted average at Rs. 118 ruled at Rs. 125. All the prices I am giving are retail prices, not wholesale. Black sheets which ought to be 177 under the new scheme ruled at only 140. These were the prices ruling at Bombay on the 10th September 1926. This conclusively proves that the importers were not pocketing the margin between the prices of United Kingdom imports and the prices of Continental imports. I think this argument that the consumer will have to pay much more under the weighted average scheme is baseless.

I do not want to say anything at this stage about the bounty system. I think this is a matter which ought to be considered carefully. I personally am not in favour of it, but it is quite possible that if this Bill is referred back to the Select Committee, some solution might be found, and we might be able to arrive at a unanimous conclusion.

With these words I support the motion of Mr. Jamnadas Mehta that this matter be referred back to the Select Committee.



### III

#### THE WAGON INDUSTRY—I\*

Sir, I have no desire at this stage to discuss the general principles of this Bill so far as they relate to the wagon industry. There are certain points which require criticism, but I should not discuss them at this stage—I think I might leave them for discussion in the Select Committee, if I am elected. There is, for instance, the question of imposing a higher duty as proposed by the Government which goes entirely against the recommendation of the Tariff Board. The Board definitely recommended that the present revenue duty should not be increased. Instead, they recommended that the railway authorities should make it a rule to place all their orders with the Indian manufacturers at a maximum price to be fixed on the basis of the lowest approved c.i.f. price as shown in the tenders for wagons in November 1925 and for underframes in April 1926 with an addition of 12½ per cent. I do not agree with the Honourable Member† when he says that this figure of 12½ per cent. was given as a mere illustrative figure. That was a definite recommendation. One would therefore like to know, Sir, the reasons which led the Government to propose the increase in the revenue duty and to discard entirely the other proposal of the Tariff Board.

\* Speech in the Indian Legislative Assembly on 1st March, 1926, while supporting the increase in the rate of duty applicable to railway wagons, carriage underframes, etc.

† Sir George Raley, Member for Commerce and Railways.



Besides this there is the question of preference to British imports. There are some of us on this side of the House who feel a suspicion that, under the veil of protection, Imperial Preference is sought to be introduced. The Honourable Member has not explained very fully the reasons which led him to recommend a differential duty between United Kingdom and non-United Kingdom imports. But these are matters which I might leave for discussion in the Select Committee.

### Steel Castings

I wish, however, to express the deep sense of disappointment which some of us entertain at the rejection of the proposals of the Tariff Board, so far as they concern the Hukumchand steel castings. It appears that the main objection of the Honourable the Commerce Member to accepting the finding of the Tariff Board Report on this point is that there is not sufficient demand at present to keep even one firm fully employed. I do not agree with the Commerce Member on this point. The finding of the Tariff Board Report on this point is quite definite. They say:

"We now find that the annual demand for steel castings is sufficient to permit of an economic output. We consider therefore that a good case has been made out for protection."

It has been admitted that the present slackness of demand may continue only for a year or two or probably for three years. After that we all expect that a normal demand will spring up from the Railway Department. There is no reason, therefore, why for want of sympathy this industry should be allowed to die. I have been told by a very good authority that even the requirements of 1928-29 of the Railway Department will be sufficient to keep at least one firm

fully employed. Mention has been made about the Kumardhubi Engineering Works, but I have been told—I do not vouch for the accuracy of the statement—that their plant is not suitable for using the Indian pig-iron and therefore they are not entitled to protection. But even if they are entitled to protection, I thought their case should have been considered very carefully. At least I would not like that the Government of India should brush aside the recommendations of the Tariff Board so lightly and make proposals definitely against them. I hope, therefore, that the Honourable the Commerce Member will make some provision for the protection of this industry too.

### THE WAGON INDUSTRY—II\*

Sir, I offer my congratulations to the Honourable the Commerce Member for bringing before this House the revised scheme of protection to the wagon industry.

I must say in fairness to him that he tried his best in the Select Committee to understand his opponents' views and not only did he do this, but he also saw great force in our contention and although he put in a note of dissent he has accepted practically all our recommendations. Had he desired he could have forced his old Bill on this House particularly at a time when most of the Members of the Opposition Benches have left for their places. But he did not take up that attitude. He very patiently listened to all the arguments which we advanced against his views and eventually did not hesitate to be converted. The serious objection which could be taken to the old Bill was this, that in the first place it introduced a much higher protection against the definite recommendations of the Tariff Board, and,

\*Speech in the Indian Legislative Assembly on 21st March, 1928.



in the second place, it introduced a scheme of differential duty which was nothing but preference to the United Kingdom; and I am glad to say that the proposals now before us are free from these features.

The chief objection to our recommendation as advanced by Sir George Rainy in his note of dissent is that:

"If the Indian wagon building firms refuse to take the orders at the maximum prices which Government consider reasonable, there will be no alternative but to call for simultaneous tenders and if the duty remains at 10 per cent., there is a danger that some of them may be lost to the Indian firms."

### **Safeguard Against Over-protection**

Now, this objection of Sir George Rainy has been sufficiently met by the Select Committee in its Report. I will explain the situation briefly. The old recommendations were to increase the duty to 17 per cent. The recommendation of the Tariff Board was that if Railway Board could place an order for 3,000 wagons of C2 type, the wagon-builders did not require more than 12½ per cent. protection. Now my information is, that the price of imported wagons since November 1925 has undergone a further increase of about £5, that is nearly 3 to 4 per cent.; and therefore the protection which the wagon-builders were likely to get under the scheme proposed by Sir George Rainy originally would have amounted to as much as 20 per cent. There was no safeguard that if in any year the Railway Board placed orders for more than 3,000 wagons it would see to it that the wagon-builders did not get over-protection. It has been made clear that they did not require more than 12½ per cent. if we could guarantee to them orders for 3,000 wagons. But under the old



Government scheme they would have got 20 per cent. protection when they did not require even as much as 5 per cent, if we could place orders with them to the extent of 5,000 wagons. A safeguard was most essential against over-protection and the old Bill was lacking in that. I do not think that there is any danger under the new proposal of the Indian wagon-building firms not getting orders from the Railway Board provided they quoted a reasonable price. My information is that the requirements of Railways in 1928-29 would amount to 2,400 wagons, not far short of the minimum requirement as estimated by the Tariff Board and on the basis of which they recommended 12½ per cent. Sir George Rainy remarked in the Select Committee that probably 1928-29 was—

The Honourable Sir George Rainy: On a point of order, Sir, I think the Honourable Member is referring to something that passed in the Select Committee. I submit, Sir, that that is not the practice of this House and that it is out of order.

Mr. Ghanshyam Das Birla: Without referring to what happened in the Select Committee, I might say that it is an open secret that the requirements in 1928-29 will amount to very nearly 2,400 wagons, and it has been admitted on the floor of this House that so far as 1928-29 is concerned the year may be reckoned as the lowest water-mark. It is expected that in 1929-30—

Mr. President: Order order. Is not the Honourable Member whipping a dead horse now?

Mr. Ghanshyam Das Birla: No, Sir, I want to show that the requirements of the Railways will exceed 3,000 wagons per year and therefore the wagon-builders would not require more than 12½ per cent. That is my argument. I say that the requirement of this year is very low and 1929-30 must show an improvement.

Therefore, probably in the next three years we might have, on an average, a requirement of more than 3,000 wagons and consequently the protection required by the wagon-builders will not be more than 12½ per cent. Under the scheme of 17 per cent. we would be giving much more protection than what was actually required. That is my argument.

Under the new scheme which we have proposed, we have provided definite safeguards. If in any year the Railway Board found that their requirements exceeded 3,000 wagons, they could reduce the price. If, on the other hand, they found that in any year their requirements were to be less than 3,000 wagons, they could increase the price. Therefore, with that safeguard, we are recommending protection neither more nor less than what is actually required by the wagon-builders. It is for this reason that I whole-heartedly support the scheme which has been put forward before this House. I quite agree with my friend Sir George Rainy that this Bill, as it stands, is silent about the wagon industry and therefore some sort of Resolution in a definite form will have to be brought before this House, and I hope that this will be done at an early stage.

### **Fiscal Commission's Conditions**

There is one thing to which I should like to refer. Although it is a rather delicate matter, I think it is the duty of every legislator to see that the money of the tax-payer is properly spent. The Fiscal Commission, while making recommendations about protection, definitely laid down that in cases of bounties, concessions and similar other things, Government ought to see that there was a proper representation of Indians on the boards of such companies, that there was a rupee capital, and so on. In fact, this policy was accepted by the



Government and Mr. Chatterji (now Sir Atul Chatterjee) on behalf of the Government of India declared the Government's policy in the following terms:—

"That the settled policy of the Government of India, as I think we have mentioned more than once in this Assembly is that no concession should be given to any firm in regard to industries in India unless such firms have a rupee capital, unless such firms have a proportion, at any rate, of Indian Directors, and unless such firms allow facilities for Indian apprentices to be trained in their works. This has been mentioned more than once and I can only repeat this declaration."

Although we are not giving anything to the wagon-builders in the shape of a definite bounty, yet when we guarantee definite orders to them, we are giving them a sort of a bounty. And therefore it is the business of the Government to see that all those conditions laid down by the Fiscal Commission are rigidly carried out. I do not know whether the Government has taken any action in the past in this direction, but I would wish to draw the attention of the House at this to the fact that those conditions are not strictly fulfilled in this case. The Indian Standard Wagons have got the following directors at present:

"Mr. Turle, Mr. Scott Fairhurst, Mr. Nichol, Mr. Oswald Martin and two Indians, Sir Rajendra Nath Mukherji and Mr. Bhattacharji."

I think we should have a majority of Indians on the Board of a firm to which we pay a bounty, as in the present case. Whenever we give a bounty, it should be our duty to see that Indians have an adequate representation on the board of directors.

Sir Walter Willson: Does not the Honourable Member know that the whole concern is controlled and managed by Indians?



Mr. Ghanshyam Das Birla: I know the real facts very well. I know that it is controlled by Sir Rajendra Nath Mukherji, but I want to be assured that the board will be composed of a majority of Indians.

As regards apprentices, I might read the Tariff Board's report on page 26 where they show the cost of manufacture. This is what they say:

"The salaries paid to Europeans amounted to Rs. 1,21,000 and the salaries paid to Anglo-Indians and Indians amounted to only Rs. 91,000."

I do not know what share has been taken away by Anglo-Indians, although I take them as Indians. These figures, however, prove at least one thing, namely, that Indians have not got a sufficient hand either in the board or in the management of the Company. I do not know what arrangements have been made for the training of apprentices, but this is a matter to which I should like to draw the attention of this House. It must be made clear to the party concerned that where the tax-payer's money is spent, the conditions laid down by the Fiscal Commission should be rigidly fulfilled not only in letter but also in spirit.

### **Hukumchand's Case**

There is one thing more which I have to say. The Honourable the Commerce Member was absolutely silent about the Hukumchand Steel Castings. Some of us have put in our notes in the Select Committee and I expected that the Honourable the Commerce Member would say something on the point. I wish to make it clear that I have absolutely no connection with this firm. I am neither a share-holder, nor a director, nor a relative, nor a friend of the proprietors of this firm. All the same, I think it my duty to support the proposal of the Tariff Board, simply because this is a firm which

deserves protection, because this a firm entirely Indian in the fullest sense of the term. I do not like to say anything about what happened in the Select Committee, but all the same I must bring it to the notice of the Honourable the Commerce Member again that Hukumchand's case is a very strong one. The Tariff Board definitely recommended that this firm be given a bounty at the rate of Rs. 2|8|- per cwt. It was remarked by the Honourable the Commerce Member that there are two firms in the field, and not the firm of Hukumchand only. I am quite prepared to admit the accuracy of the statement although my information is that there is only one firm and not two firms in the field. Even if there are two firms, I would submit that just as you insist on the Railway Board placing all their orders as far as possible within a certain limit with the Indian manufacturers, it is but fair and just that you should insist on the wagon-builders too that they should place all their orders for the component parts required by them only with the Indian manufacturers.

I think this is a just and a reasonable request, and I hope that Sir George Rainy will consider this matter very seriously and try to help the firm as much as possible. The firm does deserve protection and a case has already been made out in its favour as could be seen from the report of the Tariff Board. We all know that after two or three years a very large demand for the component parts might spring up in India and if at this stage we allowed the industry to die for want of sympathy, the result would be that after two or three years we shall find ourselves entirely in the grip of the foreign suppliers and this would be very injurious to the interests of India. I was told informally that there have been serious complaints about

some of the supplies of Hukumchand. In this connection, I might say that they have been supplying large quantities of axle boxes and similar things to the Railways and the total rejections amounted to only 3 per cent. On the contrary, I have been told that the Stores Department and the railway authorities from time to time wrote to Hukumchand appreciating very much their work and if they got anything it was praise. I can say therefore that this is a case which the Honourable the Commerce Member should treat very sympathetically and I hope he will do something on the lines of our recommendation.



#### IV

#### COASTAL TRAFFIC\*

Sir, I rise to support the motion which is before this House. When Sir James Simpson got up to oppose this Bill, I expected to hear some very convincing arguments against it, but I was very much disappointed to hear him resort to appeals to Pandit Motilal Nehru in the name of the All-Parties Conference Report and also oppose the Bill in the name of the consumer without telling us as to how the consumer was going to suffer. So far as the question of racial discrimination is concerned, I think I need not say much. Panditji has already replied to his remarks, but I might add that the European section of this House by their supporting yesterday a Bill of a discriminatory character have cut the ground from under their feet.

There it has been admitted by the European section of this House that in the best interests of India some Britishers could be deported from this country. If we accept the principle that Britishers in the best interests of India could be deported from this country, I do not see any reason why the British ships might not be deported from India in her best interests.

So far as the interests of the consumers are concerned, I wish my friend had said something convincing. It is no use saying that under a monopoly, and by

\*Speech in the Indian Legislative Assembly on 13th September, 1934 on the Bill introduced by Mr. Sarabhai Nemchand Haji for reservation of the coastal traffic of India to Indian vessels.

the reservation of the coastal trade to Indians, the rates of freight would go up and that the consumer would suffer. Let us be frank. The European section in this House is not for protecting the interests of the Indian consumer.

Sir James Simpson: Yes.

Mr. Ghanshyam Das Birla: Well, I wish to tell this frankly to them. Let them stand on the ground of self-interest rather than talk of the interest of the consumer. That is sheer hypocrisy. It is most insincere to say that they are opposing this Bill on the ground of the consumer's interest. Let us examine the history of the last 50 years of the present shipping concerns, owned and controlled by the British, and let us see how the consumer's interests have been served and protected by them.

### Consumers' Friends

I would, Sir, take only one instance of a company plying for coastal trade, that is, the British India Steam Navigation Company. Now the ordinary capital of this Company is £9,57,000 and from 1901 to 1925 the total profits which it made amounted to £51,71,000, or approximately 22 per cent. per annum. Twenty-two per cent. per annum is the profit which these protectors of the consumer's interests have made during the last 25 years. And still they have the audacity to say that they are opposing this Bill in the poor consumer's interest. Let us also examine the rate of freight which they charge for the coastal cargo they carry. I have calculated that on an average they charge about Rs. 20 per ton for the coastal traffic. If my figure is not correct, I would ask my friends who know about these things to correct me. As compared with this figure, the freight from India to the United Kingdom is about



Rs. 16 per ton—a distance probably three times the longest distance of a coastal trip. That is how they are serving this country.

It comes to this, that they charge for the coastal traffic nearly four times the rate they charge for the United Kingdom. That means that the importers of food-grains and other raw materials in the United Kingdom pay a freight rate about 25 per cent. of that paid by the Indian consumer. In spite of all these big profits, the present European concerns interested in the shipping trade on the coast could not stand any Indian shipping company to come into the field. It was estimated during the enquiry by Mr. Rangachariar, that companies with a capital amounting to about 10 crores of rupees were ruined on account of the "rate-war" and the "deferred rebate system." The European ship-owners have so far been successful in keeping Indian companies out of the field by resorting to all kinds of means, fair or foul, with the result that the coastal trade at present is practically monopolised by two English companies.

### Question of Capital

Backward as we are, if proper protection was given against these unfair means, against the deferred rebate and rate war systems, by which the present shipping interests have successfully attempted to kill the Indian industry, I have not the slightest doubt that sufficient capital would be found in India to take up the trade which at present is being carried on by these concerns. Sir James Simpson very pertinently enquired how India would be able to get 12 crores of rupees which would be required to completely displace the foreign concerns. Sir, if the Government of India could get from this country every year through borrowings from



20 to 40 crores of rupees, there is no reason to think that it would be difficult to find the small sum, if I may say so, of Rs. 12 crores provided proper protection was given to the Indian industry.

Sir James Simpson: Private enterprise is required.

Mr. Ghanshyam Das Birla: No doubt about that. Do you mean to say that the money which Government gets at present from Indians is not from private investors? A good part of it is from the Indian investors. (An Honourable Member: "The greater part of it.") Yes, the greater part of it.

The suggestion has been made that during the slack season the Indian ships would find it difficult to get cargo on the Indian coast and that therefore their overhead charges would have to fall entirely on the busy season, and for that purpose the rate of freight will have to be automatically enhanced. The figures that I have been supplied will show that during 1924 and 1925 the sailings from Rangoon, Calcutta, Bombay and Karachi were very nearly equally divided between the two half-years. As a matter of fact, no such thing existed as a slack season. But assuming that there is such a thing as a slack season, there is no reason to believe that the Indian ships would not take to the foreign trade just as is being done at present by the present English-owned concerns.

### No Expropriation

Much has been said about confiscation and expropriation. I must say and it is very well-known in this House that this word was introduced first of all by Sir Charles Innes. Sir Arthur Froom, who was a member of the Mercantile Marine Committee, never suggested that reservation of the coastal traffic to the Indian ships would amount to an act of expropriation. I do

not want to go into detail, but if the meaning as provided to us by Mr. Haji is correct that "expropriation" means dispossession of property or of proprietary rights, I should like to know from my friends who is being dispossessed of his property. If they think that this organised killing of the Indian trade means to them a proprietary right, then I must say that this proprietary right should be taken away from them as immediately as possible.

### A Dirty Game

It has also been suggested during the debate and also in the opinions sent to this House by the various European Chambers, that if such a Bill were passed, it would only benefit Bombay at the cost of other provinces. I think it is very dirty tactics which they have introduced into this controversy by trying to set up one province against another. But I would tell my European friends that fortunately the provinces have not fallen into the trap laid for them. I should like here to refer to the evidence of a few witnesses who appeared before the Mercantile Marine Committee and to the opinions they expressed about this measure. I should like to cite the evidence of one or two witnesses from Bengal to show that the people of other provinces do not feel that this measure is calculated to benefit Bombay at the cost of the other provinces. Sir, before the Mercantile Marine Committee, Maulvi Muhammad Nur-ul-Haq Choudhari of the Central National Muhammadan Association, when questioned whether he wanted the coastal shipping to be reserved entirely for Indians, said, "Yes, I do." He was asked, "You do not want any English people on the coastal trade at all", and he said, "I do not." Babu Jogendra Nath Roy of the East Bengal River Steam Service, Limited, when



examined, said that he very much wished that the coastal traffic should be reserved for Indians within four or five years by gradual replacement of European ships by ships built by the Indian Mercantile Marine. Kumar Pramatha Nath Roy of the British Indian Association in reply to the question;

"Among the various recommendations which you make...for developing the Indian Mercantile Marine for coastal purposes, to what do you attach the greatest importance?"  
said:

"To navigation bounties and the reservation of the coastal trade."

Then, Sir, I would like to refer to the evidence of our Honourable friend, Mr. Kabeeruddin Ahmed of the Indian Seamen's Union. (Laughter.)

"Q. There is no use of training boys if there is no prospect in the mercantile marine. So your Union considers that the best way to find that prospect is to reserve the coastal trade for Indian-owned ships?

A. That will be good in the beginning.

Q. Has your Union studied any practical means of arriving at the reservation?

A. It seems to me that if you reserve the coastal trade for Indian shipping, they will get the necessary facility."

### A Legitimate Aspiration

The question before us is this: is it or is it not a legitimate aspiration of India to have her own mercantile marine? If it is acknowledged by the European Members of this House that it is a legitimate aspiration, I think it is no use their opposing this Bill. They ought to suggest some better alternative in case they do not like the one before the House. In the absence



of any better alternative than the present Bill, what one feels is that the sympathy expressed by the Europeans is not genuine, but that it is all lip sympathy and nothing more. It is a well-known fact that almost all the countries in the world have in one way or another protected their mercantile marine. I should like to know from the Government of India what they have done so far. The English ships have been plying along the Indian coasts for the last 50 years. And what is the result? Let us have statistics from them to show how many Indians have been trained so far on the ships. Let us have something from them as evidence of the efforts they made to get a real Indian mercantile marine created to ply along the Indian coasts. It could be seen from the history of the past years that the Government of India have been keeping silent, that they have been making no attempts to do anything to protect the Indian industries, with the result that nearly Rs. 10 crores have been lost by private enterprise. It is high time that something was done, and if the Government of India are really serious, it is their duty, as well as the duty of the European Members, to suggest some better proposal if they do not like the present one.

## V

### THE MATCH INDUSTRY\*

Sir, I offer my hearty congratulations to Sir Pestonji Ginwala for placing a very valuable document before the country in the shape of this report for the protection of the match industry and I also congratulate the Government of India for accepting its recommendations in toto.

When the policy of protection was inaugurated in this country about five years ago, there were critics who were not slow to criticise the action of the Government in accepting that policy. They maintained that the policy of protection was calculated to increase the burden on the consumer for the benefit of the capitalist. But it has been proved by the Report of the Tariff Board, so far as the match industry is concerned, that if proper protection is given, the indigenous industry in course of time can not only compete with foreign imports but can also produce goods much cheaper for the consumer of its own country. As could be seen from the Report, in 1927, the price at which imported Swedish matches were sold was Rs. 2-3-0 per gross while the lowest price at which the Indian manufacturer could sell his matches was Rs. 1-2-6, that is, about Rs. 1-0-6 lower than that of the imported matches. That, while con-

\*Speech in the Indian Legislative Assembly on 17th September, 1928 while supporting the Match Industry (Protection) Bill.

clusively proving the efficacy of protection, shows that protection helps not only the indigenous producer but eventually the consumer himself.

### Swedish Match Company

When we impose a burden on the consumer, we should do so with only one object, and that is, to help the indigenous industry. If it is found that by imposing a fresh burden on the consumer we are not helping our own industries but are helping the foreign industries, I think it would be quite appropriate for this legislature to say that we should not and would not help any foreign producer at the cost of the Indian consumer. As could be seen from the Report of the Tariff Board, the capital invested by the Swedish Match Company in India amounts to nearly one-third of the total capital invested in the industry. But at the same time it will be seen that the prices are determined by internal competition in the country, and therefore, even the imposition of this duty has not been a burden on the consumer and if the Swedish manufacturers are also making profit, it is not at the cost of the Indian consumer at present. It has been estimated by the Tariff Board that the fair selling price of half-size matches ought to be about Rs. 1-3-0 per gross and the price at which the Indian manufacturer has been selling is about the same. Therefore it could not be said that the Swedish manufacturer here is being protected in any way at the cost of the Indian consumer. I hope the advice given by the Tariff Board to the Swedish interests that they should convert their concern into a rupee company, with a fair proportion of Indian directors would be duly taken up by them. At the same time I would ask the Government of India to have inquiries insti-



tuted departmentally every year to find out whether the Swedish Company were carrying on any unfair competition to cut down the profit of the Indian manufacturers. If at any time it is found that the Swedish interests are abusing the hospitality extended to them by this country, I hope the Government of India would not be slow to take such action as the circumstances might justify.

### **Prevention Better Than Cure**

About the maintenance of the present duty I have one suggestion to make. I think in the present circumstances it is essential that the present rate of duty should be maintained for an indefinite period. As could be seen from the Report, the Swedish Company is a very powerful concern. If the present duty were abolished, the consequence might be that the Swedish importers would again start dumping, and thus ruin the Indian industry. I am quite sure that if such an occasion arose, the Government would not be slow to take action. But I think that prevention is better than cure, and therefore, I think that for the time being, the Government should maintain the present rate of duty without fixing any limit to the period of protection until it appeared that all danger from foreign imports was totally eliminated.

## VI

### IMPERIAL PREFERENCE\*

Sir, in rising to raise my voice against the principle of this Bill, that is, Imperial Preference, I feel some uneasiness in my mind. I realise the responsibility which I am taking as I cannot ignore the fact that the Bombay cotton industry is passing through very serious times. Yet the duty of every Member is clear in this matter, and it has to be weighed whether the interests of the cotton industry are of such magnitude that we should accept the principle of this Bill, or whether we should reject it on the ground that the wider interests of the country demand that Imperial Preference should not be accepted. I also realise that, in raising my voice against this Bill, I am not carrying with me some of my best friends. What pains me most is that I have not been able in this matter to carry with me even my dearest friend Sir Purshotamdas Thakurdas, although I trust that his head as well as his heart is with me, though not his vote. The consolation which I have, however, is that, except for the Bombay interests, the entire Indian mercantile community, and what is more, the rest of the country

\*Speech in the Indian Legislative Assembly on 25th March, 1930 in opposition to the Cotton Textile Industry (Protection) Bill which while giving some protection to the cotton industry sought to differentiate in favour of goods of British manufacture. The Bill with some amendment was passed on 31st March, 1930 but not before the controversy had developed into a crisis and the members of the Nationalist Party—to which Mr. Birla belonged—and of the New Swaraj Party had left the House in protest, eventually resigning their seats.

is with me. And, the greatest of all is the consolation that justice is on my side. With faith in the justice of my cause, I rise to oppose this Bill.

At the very outset, I should like to make a few observations about the remarks which fell from my Honourable friends Mr. B. Das and Diwan Chaman Lall. I think they were rather unkind when they strongly criticised the Bombay management and commented on their so-called inefficiency. I hold no brief for Bombay. I have got no interest in the Bombay mill industry but knowing as I do something of mill management in Calcutta and in Bombay as well, I have not the least hesitation in saying that Bombay management is as competent or incompetent as any other management in the world. If, Sir, according to my friend Diwan Chaman Lall, Bombay has been able to oust Lancashire in the cotton trade during the past few years, surely it could not be due to its inefficiency. I should be proud of the fact that at present, of the total Indian production of cotton goods Bombay's share is nearly 50 per cent. and surely this does not reflect its inefficiency. If, in spite of the very hostile policy of the Government towards the indigenous industry, Bombay has been able to capture such a large part of the cotton trade, it is a matter of which we should all be proud, and I would be very sorry if my friend Diwan Chaman Lall did not feel so. I think Bombay is in a frightful condition, and it is the duty of this House to treat her case sympathetically, and not to criticise her at a time when she requires a sympathetic word and sympathetic treatment more than she required at any other time. I also wish to say that whatever be the criticisms against Bombay, that is the only place where you get a little glimpse of Indian management and Indian enterprise. You kill Bombay and you kill the entire



Indian trade. I therefore ask my friends to be sympathetic and treat her case as generously as possible. It is true that Bombay has become impatient, as one of my friends remarked. She has lost her nerves. It is therefore all the more necessary that we should not allow her to commit suicide by taking a cup of poison when she requires a cup of milk, that is judicious nourishment and wise counsel. I hope therefore that we shall not be unduly harsh on the Bombay interests. My friend Diwan Chaman Lall said that it was not a national industry. I know there is a distinction between a national industry and nationalised industry. I agree that it is not a nationalised industry. But it undoubtedly is a national industry, and if my friend Diwan Chaman Lall looks forward to a time when it may be possible to nationalise all the Indian industries, I should like to tell him that it will be easier to nationalise a national industry than to nationalise a non-national industry. It is therefore in the interest of all concerned that we should help our national industries and not treat them in an uncharitable manner.

### Inadequate Protection

Before I come to close grips with some of the provisions of this Bill, let me make it clear that I do not altogether agree with the argument advanced from time to time that there are certain kinds of goods which come into competition with Indian products while there are others which do not come into such competition. This argument is correct to a limited extent, but I will give you a few illustrations which will show that it does not hold good beyond a certain point. Take the case of artificial silk. The House will realise there is nothing common between cloth made of artificial silk and cloth made of cotton, and yet if the cloth made of

artificial silk could be sold at a very cheap price, it is bound to compete with the cloth made of cotton. I can produce some samples, which I forgot to bring with me today, but which I propose to lay on the table for the inspection of this House, which will show that there are dhotis imported from Manchester in very large quantities made out of finer counts, and yet they compete with dhotis made of coarser counts in India. The reason is obvious. The Manchester dhoti, although very inferior so far as durability is concerned, is sold at Rs. 2 per pair, while the Indian made dhoti, although nearly a hundred per cent. more durable than the Manchester dhoti, is sold at Rs. 2-6-0 or Rs. 2-7-0 per pair. In a country where poverty is rampant and the poor have to pay as high a rate of interest on their loans as 200 per cent., it is not at all surprising that a man prefers to buy cloth far less durable simply because it is slightly cheaper. He would not buy cloth far more durable though slightly dearer. This point has been brought out very strikingly by Mr. Hardy\* in his Report, on page 72, paragraph 22 when he says:

"We have also to consider the indirect competition of goods of different quality, a matter of special importance if a scheme of protection should be contemplated, since there is always the possibility that a rise in the price of an imported product may not drive the purchaser to a local product of the same kind but rather to an imported product of a slightly different kind. A good example of this type of indirect competition is the supplanting of fine striped shirtings by fine printed drills."

Then he goes on to say:

"Area for area, a fine cloth may be less expensive than a coarse cloth and a purchaser who requires

\*Mr. G. S. Hardy of the Commerce Department.



a piece of cloth for a particular purpose generally requires a definite area and not a definite weight. Thus he may buy a finer cloth merely because it is cheaper whereas he would prefer a coarse cloth if he could get it at the same price because it is more durable and better suited to his purpose."

This makes it clear that it would not be correct to say that certain kinds of goods alone come into competition and that others do not. It is all a question of price. All cheap cloth must compete with Indian products, and if we accept this we have to analyse whether the protection proposed to be granted under this Bill is adequate or not. To my mind, the success of protection would depend entirely on its adequacy. It is something like nourishment given to an invalid patient whom you want, in course of time, to get up on his legs and earn his own livelihood. If you give him judicious but adequate nourishment, he develops sufficient strength after some time and becomes independent of your help. On the other hand, if you keep him in a semi-starved condition, he is a constant drag on your purse. To my mind adequate protection is money judiciously invested by the consumer, and inadequate protection is money simply thrown away. I think therefore this House should analyse whether the protection which is proposed to be granted under this Bill is or is not adequate protection, whether it covers all those imports which are likely to compete with the Indian products, or whether it is going to be money wasted. We have to analyse whether the sacrifice which the consumer is called upon to make is going to bring us any return or will it have been in vain.

Now, Sir, in order to find out whether protection is adequate or not, let us examine the figures of de-



mand and supply. Mr. friend the Honourable the Finance Member referred, in his speech, to the years 1924-25 and 1925-26 as the years in which the peak of prosperity had been reached, and therefore I would take these years as the bases of my calculations for finding the total consumption of the country. Now, Sir, I take the year 1924-25 and I find that the total consumption of cloth in India was 3,621 million yards, out of which 1,970 million yards were produced by mills in India and 1,651 million yards were imported from outside. Now, we come to this conclusion,—and it is not wrong as we cannot come to any other conclusion since the purchasing power of the masses after these two years has surely come down—it cannot be said that India can consume more than 3,600 million yards of cloth at present. I have left out deliberately the handloom production and consumption, because that is not a relevant factor. If I take the handloom industry also into account which produces about 1,100 million yards, then I would have to add 1,100 million yards to my figures both of consumption and of production. This will complete the picture. But, for all practical purposes it would make no difference if we omitted the handloom industry altogether from the picture. Thus, we come to this conclusion that the consumption of Indian mill-made cloth and of imported cloth cannot be at present more than 3,600 million yards. Let us now see if we have not got more supplies than we require.

### Indian Production

The productive capacity at present of India is about 2,700 million yards. We produced in 1927-28 2,357 million yards and since then there has been a great expansion in the trade. New mills have been erected in

Ahmedabad and other up-country places, and at some places the mills have started working at night with another shift. I know of cases in fact of my own mills in Delhi and Gwalior where we are working a double shift. It has been estimated and the estimate is not far wrong, that the present capacity of the Indian mills is about 2,700 million yards, as against our requirements of 3,600 million yards. We have got production in our own country which amounts to 2,700 million yards. That is to say, we require only 900 million yards from imports, and I ask the Honourable the Commerce Member\* whether he thinks that the protection which he is proposing to give under this Bill will be adequate to affect the imports to that extent. We are at present importing, as I said, about 1,900 million yards, and unless we bring down the imports to 900 million yards, there is no likelihood of our mills working economically to their full capacity deriving any advantage from the proposed protection. This is the first point on which I disagree with my friend Mr. Chetty†. He said: Let us see whether the protection is adequate. I say the protection is not adequate, and therefore the money which we are asking the consumer to sacrifice for protecting the textile industry is going to be money wasted.

### Competition With U. K.

Now, Sir, my second point is that our competition is not merely with Japan. I will again produce some figures to show that our competition is also with the United Kingdom. I propose to place a few figures before the House, which will show that the United

\*Sir George Raeburn.

†(Later Sir) Shantarakham Chetty who became Finance Minister in independent India.



Kingdom has been competing as much with Indian products as Japan. I will take only dhotis and coloured goods in this connection. I may point out that with Japan, our competition is confined entirely to plain grey goods, i.e., Latha, etc., whereas our competition with the United Kingdom is more marked in the field of dhotis and coloured goods. There, again, I wish to produce a few figures before the House on the basis of which Honourable Members can form their own judgment. As I said before, I have chosen the year 1924-25, as the Honourable the Finance Member called it the peak prosperity year. In that year our total consumption of dhotis amounted to 947 million yards. Our producing capacity at present amounts to 700 million yards. That is to say, we are required to import only 250 million yards. Now, let us see what has happened. Imports from the United Kingdom of dhotis in 1924-25 were 488 million yards where they have stood throughout the last five years, viz., the years 1924-25 to 1928-29. In 1928-29 imports stood at 454 million yards. But what was the effect on our production? In 1927-28, the production of the Indian mill-made dhotis had reached 616 million yards. In view of our limited consumption, which cannot be more than 950 million yards, there were only two alternatives left for us, viz., either that the imports should have been curtailed or that the axe should have fallen on the Indian production. The imports could not be curtailed and as we could not withstand competition, we had to curtail our own production. Our production, which was 616 million yards in 1927-28, came down to 464 million yards in 1928-29.

### **Bombay Mills' Plight**

Diwan Chaman Lall\* (West Punjab: Non-Muham-

\*Now India's Ambassador in Turkey.



madan): May I ask whether this decrease in the production of cloth was due to the strike in Bombay?

Mr. G. D. Birla: I am glad that this point has been raised by my friend Diwan Chaman Lall. It was certainly due to the strike, but may I ask him what these strikes were due to? We had strikes in the Jute industry in Calcutta. Labour put up extravagant demands and as we were passing through a period of prosperity, we did not like to prolong the strike and we settled the whole matter in a fortnight's time. But when the Bombay mills got strikes, they looked upon them with mixed feelings. They knew that they were passing through a period of depression, and they knew they would not lose much by keeping their mills closed. They were not in a position to meet the demands of the workers. The result was that the strike had to be until starvation led to its collapse. Now, Sir, that clearly proves.....

Diwan Chaman Lall: I do not want to interrupt the Honourable Member, but may I ask him whether he knows that the 1928 strike did not break down and that the workers did not resume unconditionally?

Mr. G. D. Birla: Are you referring to the strike of 1928? May I know what advantage labour got out of it?

Diwan Chaman Lall: The Honourable Member can read the Report himself and find out.

Mr. G. D. Birla: I am afraid my Honourable friend has neither read the Report nor has he taken sufficient interest in it. Well, it is my sincere opinion, and I think my Honourable friend Diwan Chaman Lall will agree with me, that it cannot be in the interest either of the employers or the employees that the industry should continue to suffer and remain starving. Labour can exact the best terms only when industry passes through a period of prosperity, and as

the Bombay mill industry was passing through a period of depression, it suited them very well to just wait and see. In fact they looked on the strike with mixed feelings. I would not be at all surprised, if even with the proposed protection, some mills in Bombay had to close down. But if no protection was forthcoming, I had anticipated that in the month of May this year almost all the mills in Bombay would be compelled to declare a lockout, and you may call it a strike or a lockout, so far as production is concerned, it will have the same effect. I maintain that you would not have curtailed the production—strikes or lockouts are mere means—but for the fact that we were meeting with serious competition from abroad.

#### 20 P. C. All Round

Now, Sir, to resume the thread of my argument, what I said about dhotis equally applies to the coloured goods. The import of coloured goods from the United Kingdom in 1924-25 stood at 338 million yards, while in 1928-29 it stood at 335 million yards. That is, the imports have been stationary. Well, the production of the Indian mills, which went up in 1927-28 to 681 millions came down in 1928-29 to 487 million yards. Similarly, if we look to the total production of the mills, we would find that, while the imports have been practically stationary since 1927-28, the local production which, in 1927-28 went up to 2,357 million yards, came down to 1,893 million yards in 1928-29. That gives you a correct idea of the situation. The supply is more than India could consume, and there are only two alternatives, either we must curtail the imports or curtail the production. What I want to know from the Honourable the Commerce Member is whether he thinks that the protection which he is proposing to



give to the Indian mills is adequate enough to affect the imports to the extent we want and whether it will bring the imports down to 900 million yards; if not, I am afraid he must admit the money which we want to spend for the protection of the Indian industry will be money wasted. It was for this reason that the Bombay millowners and the millowners of other parts of India unanimously asked for 20 per cent. all round, with a minimum of  $3\frac{1}{2}$  annas per pound on all cloth. I want to know why two-thirds of the imports have been left untouched. Our total imports amount to 1,900 million yards, out of which two-thirds come from the United Kingdom, and it is from the United Kingdom that we have to face serious competition in dhotis and coloured goods, and I want to know from the Government of India what protection they propose to provide against the imports of dhotis and of coloured goods from the United Kingdom, which are very seriously competing with Indian products.

Mr. B. Das (Orissa Division: Non-Muhammadan): Mr. Chetty will explain that.

### What Preference Means

Mr. Birla: My own conclusion is, and that conclusion is shared by a large number of friends in this House, that while the Bill does provide a small protection to the Indian industry, it also provides protection to Lancashire, in order that she may wrest her lost territory from Japan. The figure of the last two years will show how the imports from the United Kingdom have gone down, while the imports from other sources have gone up. In 1927-28, the imports from the United Kingdom were 1,543 million yards, while from other sources they were 430 million yards, thus making a total of 1,973 million yards. While



the total imports have been stationary—that is in 1929 the imports were approximately 1,980 million yards,—the imports from the United Kingdom have gone down from 1,543 million to 1,300 million yards, while from the other sources the imports have increased from 430 million yards to 680 million yards. That makes it quite clear that while we are asked to give a small protection to the Indian cotton industry, we are also asked to give equal protection, if not more, to the Lancashire industry. I ask this House whether it is fair that, at the cost of the Indian consumer, we should protect an industry which is not situated in India, which is in no way connected with India except the fact that it is one of the elements which has constantly aspired to kill the Indian textile industry. (Hear, hear.)

I realise that my friends of the Bombay Mill-owners Association have been in a difficult position. While they want protection for their own industry, if they reject this proposal they have to go without protection for some time. But if they would have the patience and courage to say to the Government definitely without any ambiguity that if we want protection we want unalloyed protection, we will not consent to pay a huge sum out of the pocket of the Indian consumer for benefiting Lancashire. If they had the courage to say this, I am sure that in the course of a short time, the Government would have to bend and give us protection, adequate and unalloyed, without any tinge of Imperial Preference.

### 2 Crores for Lancashire

Let us examine what is the expenditure we are incurring in order to protect the Lancashire industry. The Fiscal Commission in its Report—here I want to make it clear that I am not reading from the Minority

Report, for I was one of the Minority which wrote the Minute of Dissent—I am quoting from the Majority Report, which was accepted by the Government. In paragraph 225—this paragraph has already been quoted, but it is so instructive that I am tempted to quote it again, and I hope the House will not mind the repetition—in paragraph 225 it says:

‘So long as a substantial quantity of the commodity continues to be imported from countries to which preferential rate has not been extended the prices of the commodity will be regulated by the higher duty and the consumer will thus pay the higher price on the whole supply and the difference between the two rates of duty will be equivalent to a bounty to the manufacturer in the country receiving the preference’.

Then, Sir, in paragraph 226, on page 126, they further give an illustration and say:

‘To take an illustration, we may assume that the favoured country is before the grant of preference supplying three-fourths of the market and after the preference is given, the price to the consumer for a time may be regulated by the higher rate of duty and the manufacturers of the favoured country will receive, as has been already explained, the bonus of the difference between the two rates.’

This illustration very well fits in with our present position. We are now importing two-thirds from the United Kingdom and one-third from other countries. Now if we are to accept this proposal, the result should be that the price of imports from the United Kingdom would be regulated on the basis of the prices on non-U. K. goods, which naturally will have to be sold at a higher price on account of the five per cent. extra duty. That being so, viz., if five per cent. extra raises the price of all imports from the United King-



dorn, this would mean that the Indian consumer would be paying very nearly 2 crores of rupees for the benefit of Lancashire. It may be said that I am exaggerating the result. But I should like to know from the Government, if the figures which I am giving are wrong, what the correct figures are. I want to know how much you are calling upon the consumer to pay to Lancashire in order that they may be able to sell her goods at higher rates in the Indian market and thus protect her industry. I would read a press telegram which is very significant. The President of the Manchester Chamber of Commerce issued a statement in which he said:

'While they are profoundly dismayed at the increased duty, they could not fail to recognise the gesture of the Government of India proposing an additional five per cent. duty on non-British goods, although it will not suffice to compensate Lancashire for the disadvantage of the general increase.'

Well, Sir, if this will not suffice to compensate her, if the compensation is not sufficient, it is, according to the admission, some compensation at least. And I want to know what is the total amount of compensation which we are providing to Lancashire. Surely if any compensation is being provided, it could only be provided at the expense of the Indian consumer. I like to know from the Honourable the Commerce Member as to what is the total amount of compensation which is sought to be provided to Lancashire at the cost of the Indian consumer. The fact is clear, and to my mind it seems that it should be clear to those who represent Indian interests, that we are being asked to protect the Lancashire industry at the expense of the Indian consumer. Government may protest that that is not so, although they owe to me a



reply to my question as to what is the compensation which we are actually providing.

### Pandit Malaviya's Amendment

Government may say that they are not giving any compensation at all. Will that convince any impartial man who carries a head on his shoulders? I will put another simple question. Either Lancashire competes in the Indian market against Japan, or it is competing with the Indian products, or it is competing with none. There could be only these three alternatives. Let us examine this point more fully. If Lancashire is competing with Japan in the Indian market, is it fair that Japan should be handicapped by the imposition of 5 per cent extra, which will mean higher prices to the consumer? If Lancashire is competing with Japan, then surely it is the duty of Government to put both the countries on the same level, so that there may be free competition, and the consumer in this country may get his requirements at a reasonably low competitive rate. The Commerce Member may say that Lancashire is not competing with Japan. Then is it competing with the Indian products? If that is so, is it fair that two-thirds of the imports should be left practically untouched? Is it not fair that we should get equal protection against Lancashire also? Then, if there is no competition either with Japan or with the Indian products, then for whose benefit is this five per cent extra being imposed on Japan? Why should the Government be so chary of accepting the amendment which is proposed to be moved by the Leader of the Opposition, Pandit Malaviya, which imposes  $3\frac{1}{2}$  annas per pound on all imports? The very fact that Lancashire is producing only finer goods should be a sufficient safeguard for Lancashire, be-

cause if my Honourable friend the Commerce Member would calculate, he would find that  $3\frac{1}{2}$  annas per pound on finer goods will not go above 15 per cent. It will be practically inoperative. Therefore I want to know why it is that Government feel hesitation in accepting that amendment, if Lancashire is competing neither with Japan nor with India. My suspicion is that, even if there may be small competition today, the object of Government seems to be to help Lancashire in wresting from Japan the territory which has been lost in the last two or three years. The very fact that Government feel hesitation in accepting Pandit Malaviya's amendment clearly proves that Government are not acting in this matter in the interest of the Indian industry. If I accept their argument that protection is proposed on the basis of competitive goods, I want to know why it is that Government want to tax Japan, even in the case of finer goods, where there is no competition, and why she is leaving alone coarser goods from Lancashire, where there is competition. The competition may be small, but why can you not impose a  $3\frac{1}{2}$  annas duty, which will leave all the finer goods untouched, and tax those coarser goods which are coming into competition? The very fact that Government hesitate shows that their bonafides are not above suspicion.

### Protection and Preference

It might be said by my friend the Commerce Member that there are administrative difficulties in accepting Pandit Malaviya's amendment. He might say that it is not possible to collect  $3\frac{1}{2}$  annas per pound specific duty on all imports. May I ask why this so-called difficulty was not pointed out to the mill-owners' representatives when they met the Commerce



Member at Delhi and suggested 3½ annas all round? If administrative difficulties exist, surely they should have existed even at that time. But so far as I know, not much objection was raised on the ground of administrative difficulties. I again inquire whether these administrative difficulties are so insuperable that this could not be accepted? I am afraid it is all very nice to say this to laymen, but those who have got some experience of trade know very well that it is not the administrative difficulties which compel Government to reject Pandit Malaviya's amendment, but, it is the fact that if they accept this, they will be putting Lancashire and Japan on the same basis. They will be allowing free competition, and they will not be able to grant that protection to Lancashire which they want to. That is the whole proposition. I therefore strongly urge that, if we have got any self-respect left in us, we should reject it and tell Government that we are not prepared to accept their proposal.

It is most humiliating that this protection has been mixed up with a policy of preference. We have been crying for protection for the last three years. The Tariff Board made a recommendation that the Indian cotton industry deserved protection. Government rejected the Tariff Board's recommendation and now, taking advantage of the plight and bad condition of the cotton industry, they come forward with a proposal, which is most humiliating to the country and particularly to the millowners, and they say, pistol in hand, that either they must accept both protection and Imperial Preference, or reject it and go to the dogs. This is the situation in which they have put the Indian cotton industry, and I say that if any self-respect is left in the millowners, they should declare



a lockout and say to Government that they do not want to go to the dogs. They may ask Government to go to the dogs, but they should refuse to consider this most humiliating proposal. I am afraid they have not got that courage, but surely it is the duty of this House to say that we are not going to stand this humiliating proposal and we are not going to accept it. If Government carry this proposal by the strength of their own votes, let them do so, but I want every one of the Honourable Members to reject this proposal.

I have stated my objections very briefly. My friend Mr. Shanmukham Chetty when he discussed this Bill, said he wanted to dwell on three aspects. First, whether the industry deserved protection. I think there could be no two opinions about it. The industry does deserve protection. Secondly, whether the protection was adequate; and here I differ from my friend Mr. Chetty. I say, the protection is not adequate. I do not want to make any prophecy, but I shall not be surprised if, in spite of this protection which you are giving, the Bombay mills knock at your doors again next year and suggest that they are dying and require more protection. I will not blame the industry if they do so, for if they knock at your door again, it will be because of the fact that you are not giving them adequate protection. I maintain that the protection is not adequate. The third point of Mr. Chetty was whether the effect of Imperial Preference was injurious to the industry and the economic interests of the country. I think, Sir, I have proved, at least to those who want to see with their eyes open, that it is injurious to the economic interests of the country. I hope I have proved that we are protecting Lancashire at a cost which may fluctuate between  $1\frac{1}{2}$  to 2 crores of rupees per annum, and I ask this House to ponder

seriously over the question whether they will be serving the interests of this country by accepting a proposal which is calculated to promote not our interest but the interest of Lancashire.

### **More Harm Than Good to Lancashire**

But, Sir, I want to say a word to Government also. If they think that, in the existing humiliating circumstances, they could impose something on us, they are very much mistaken. I think, Sir almost every politician from time to time has said that, when we get full responsible government, Dominion Status, Swaraj,—by whatever name you may call it—practically every politician has said that he will be prepared to consider very favourably any demand which may come from the British interests. But, what you are doing at present is, that you are stiffening the attitude of the people. If you think you can impose Imperial Preference on us with impunity, you are very much mistaken. You are stiffening the attitude of the people against your interests, and I would tell Government and those who are interested in the Lancashire industry that, by this proposal, they are doing more harm than good to Lancashire. (Hear, hear.) The advantage which they think they are going to get will at least be a temporary advantage. I would be the last person, therefore, even from the point of view of Lancashire, to impose such a thing on the people at this stage, when the political situation is so unsettled. I have spoken to my friends, the millowners, of the disadvantageous situation in which they are putting themselves and I will tell them that, by accepting this proposal, they are doing the greatest disservice to themselves.

First of all, they are alienating the sym-



pathy of the people. (Hear, hear.) What Mr. Chaman Lall and Mr. B. Das said represents to some extent the opinion of a section of the country. People are already hostile to the Bombay mill industry. If Bombay interests are so indiscreet as to associate themselves with the proposal against which even the Government of Lord Curzon fought in 1903, I am sure they will be inviting the greatest condemnation on themselves. Even from their point of view, in their own interest, they are making another mistake. May I ask them, why did they not get protection in 1927, and why should they get a little protection now? It was because, in 1927, the imports from Japan were not large. The ratio was not of one-third to two-thirds as at present. At that time any protection to the Bombay mills meant hitting Lancashire to the extent of 80 per cent. They are getting protection today because Lancashire's interest has dwindled down to 66 per cent., and if they help Government, if they help Lancashire in wresting the lost territory from Japan, and if, after two years, it is found that cent. per cent. trade has been captured by Lancashire, they may take it from me that, if they want any protection in future, they will be knocking their heads against a wall of stone. It is impossible for any Government, until we get responsible government, to fight against the Lancashire interests and, Sir, what Bombay millowners are doing at present is inviting death for themselves. As I said, they have lost their nerves, and it is the duty of this House, however impatient the Bombay millowners may be, it is the duty of this House to see that, in their impatience, they may not do something which is against their own interest and against the interests of this country. With these words, I oppose the underlying principle of this Bill. (Applause.)





# CURRENCY

"The rupee being artificially raised to a fictitious value by being made scarce, will depress the price of produce and the ryot will be obliged to part with more of his poor produce to meet the demands of Government. Will this be a benefit to him?"

—Mr. DADABHAI NAOROJI,  
*President, Indian National Congress,  
1906, in a statement submitted to the  
Herschell Committee (1892-93).*

"The advocates of 1s. 4d. ratio point to the fact that this rate has now been, more or less, effective for the last 18 months, thereby establishing a *status quo* which it would be unwise to disturb. This argument would have greater weight if the *status quo* had been arrived at in a natural way, but the circumstances under which it was reached have only to be considered to deprive it of any value. With no fresh currency otherwise obtainable, the monopoly rupee was bound in time to rise to whatever gold point the Indian Government chose to fix, and the fact of its having risen in five years to 1s. 4d. is of itself no more a proof that 1s. 4d. is an equitable ratio than it would be in regard to 1s. 6d. or 1s. 8d. which could equally be reached in course of time."

—SIR JOHN MUIR & MR. CAMPBELL,  
*two of the members of the Fowler  
Committee (1893-99) in their  
minute of dissent.*





## INDIAN CURRENCY IN RETROSPECT\*

The history of Indian currency does not begin with the accumulation of sterling balances or with the fixation of exchange at 1s. 6d. or with the closure of the mints to the free coinage of silver in 1893. What we see around and immediately ahead of us is dark, dismal and depressing. But the landscape has not been always so. A glorious view is presented by the past which was bright, cheerful and inspiring.

### The Ancient Period

That past stretches back to pre-historic times. Historians having done little work on Indian history, were long wedded to the theory that the first cradle of civilisation lay in Egypt. Since the discovery of Mohenjo-Daro they have had to revise their belief and have come to realise the antiquity and importance of the Indus Valley civilisation. But this is not the same thing as Indian civilisation which is older still.

The Mohenjo-Daro excavations have shown that the Indus Valley civilisation which has been dated about 3000 B. C. was conversant with the use of gold, silver, copper and with the craft of the metal-worker and that it had extensive trade relations with contemporary civilisations. From this it can be safely infer-

\* Originally published as a pamphlet by the Indian Institute of International Affairs, New Delhi, in September 1944.

red that a system of metallic currency was not unknown to that age.

In the Stupa Area in Mohenjo-Daro have been found much-worn coins resembling in size and shape the large copper issues of Kadphises I and Kadphises II and also hoards of copper coins of the Kushan King Vasudeva I and of what are presumably local issues, of a date subsequent to that of the Kushan King.

References are to be found in the Rig Veda to the use of unstamped lumps of the precious metals as currency. Gold coins in ancient India were called Nishka or Pada, etc.

The Mahabharata, belonging to a subsequent period speaks of copper and gold coins and in the Manusmriti are indicated in detail the weights and comparative values of coins of gold, silver and copper current in those ages. Pan and Karshapan were the names of silver coins current during Buddha's time. The Arthashastra of Chanakya makes mention of currency functionaries, such as the Lakshnadyaksha or the Superintendent of the Royal Mint and the Ruprakarsha or the Examiner of Coins.

The ancient Indian coins used to be punch-marked, without any writing but with symbols impressed on the face by means of punches. At a later stage, they came to be cast from dies. Numismatic researches have exploded the theories once prevalent ascribing a foreign origin to ancient Indian coinage and have established that it was evolved in India itself. In the earlier period, the coins did not bear the name and portrait of the king issuing them. Their design and execution came to be immensely improved during the reign of the Imperial Guptas.

Light is thrown on economic conditions, and particularly the ratio between gold and silver, in ancient



India by the following extract from the evidence given before the Fowler Committee on Indian currency by Mr. Macleod:—

"In the very earliest ages India had a gold currency. India produces much gold but no silver. But from a very early period, Western nations imported vast quantities of silver into India partly to purchase gold, because gold was cheaper there than anywhere else—the ratio of gold to silver in Persia was 1 to 13, in India it was 1 to 8—and also to purchase Indian products. India was in those days a very highly civilised country while Western nations were still barbarous. Consequently, India wanted no Western products and would sell her own products for nothing but precious metals."

The limited space at my disposal will not permit my speaking of the ancient past at greater length.

### The Pre-British Period

In the Middle Ages, Altmish introduced an Arabic coin with the silver 'tanka' of 173 grains, the ancestor of the rupee, as the standard coin. But it was Muhammad Tughlaq, that "prince of moneyers," who made the most daring and revolutionary experiments. His attempt to introduce a token currency of copper coins failed, first because he omitted to make coinage a state monopoly, secondly, because he provided no safeguards to check forgery, and thirdly, because the innovation was far too ahead of the times. Sher Shah, the able Afghan ruler and indefatigable administrator, swept away the mediæval coinage, introduced the silver rupee of 172.5 grains and also issued a copper coin called the *dam*. Akbar followed in his footsteps. The *dam* was the coin generally current and state revenues, down to the time of Aurangzeb, were calculated in *Dams*.



But prices were so low that copper coins of even lesser denominations such as the *damri*, which was one-eighth of the *dam*, had to be minted. Indeed, for the pettiest daily transactions *cowries* were used, while the detailed items of the Imperial accounts were recorded in *jitals*, which were one-twentieth of the *dam*. The *jitals*, however, were never coined but figured only on paper to facilitate accounts being kept to the one-thousandth part of a rupee.

The rupee was of pure silver and the *dam* of copper. A number of gold coins of varying denominations and descriptions were also coined and at the royal treasuries gold could be changed for silver or copper and *vice versa*. There was no substantial change in Moghul currency after Akbar's death. The rupee was worth 40 *dams* up to 1616 and about 30 *dams* from 1627 onwards, being equivalent to 2s. 3d. in English money.

The Mohammedan and Hindu rulers of Central and Southern India, who happened to be outside the pale of Delhi's sovereignty always had their own coins and while the Mohammedans favoured silver for their currency, the Hindu predilection was for gold. The gold *Hon* was the standard Maratha coin; coinage was licensed by the government for a fee and the weight, quality and denomination were fixed. When the Moghul Empire broke up and a multitude of petty states and municipalities rose from its ruins, the latter signalled their sovereignty by striking their own coins.

### The Rupee Standardised

Thus it was that when the East India Company came on the scene, it found in circulation as many as 994 different coins of gold, silver and copper of varying weights, denominations and finenesses; and it started

to standardise the currency. The first action was taken in 1818 in Bombay and then in 1823 in Madras when it introduced the silver rupee (weighing 180 grains 11|12th fine). This was followed by the Act of 1835 which made the silver rupee the standard coin throughout the country. The gold coins ceased to be legal tender, but their coinage continued.

By the Proclamation of 1841, the Government undertook to receive gold coins at public treasuries in payment of public dues at the face value. They stopped this practice, however, subsequently when the price of gold began to fall as a result of the new discoveries of gold mines in California and Australia. From 1st January, 1853, the receipt of gold coins in payment of public dues was stopped. Gold thus lost all place in the currency system of India though it continued to be coined to meet the public demand for it.

In 1853, a proposal to introduce gold currency was reconsidered and in subsequent years the Government of India agreed to receive and pay when convenient, sovereigns and half-sovereigns minted at any authorised mint in England or Australia at the rate of Rs. 10 and 5 respectively. The gold coins were not to be legal tender, however. The scheme, therefore, failed as it was bound to.

In 1866 there was appointed a Commission under the chairmanship of Sir William Mansfield. This Commission recommended that coins of Rs. 15 and 5 denominations should be minted and that the currency should consist of gold and silver. But this again led nowhere.

### Fall in Silver

The real crisis, however, developed when from 1873 onwards the price of silver began to fall. As the



Indian currency was based on silver its exchange value in terms of gold naturally began to depreciate. Those who looked upon the Indian market as their close preserve felt extremely alarmed. Furthermore, Britishers in the services and in trade who remitted money to England too were averse to a falling exchange. Such interests set up a howl demanding the closure of the mints to the free coinage of silver and the stabilisation of exchange. The agitation in the early nineties was led by Mr. Mackay, later Lord Inchcape.

On the other hand, Indians welcomed a falling exchange since it stimulated production and export. The policy of the Government, however, was not to promote Indian but British prosperity. So in 1892, a Committee was appointed under the chairmanship of Lord Herschell to consider the position, especially with a view to prevent a fall in the exchange value of the rupee. The Committee recommended that the mints should be closed to the free coinage of silver, and that the exchange value of the rupee in gold should be provisionally fixed at 1s. 4d. On the day the Report of the Committee was signed, the exchange rate was actually 14.625d. According to the Committee's recommendation about the exchange value of the rupee, Government was to provide rupees in exchange for gold tendered to it at the rate of Re. 1 for every 7.53344 grains of fine gold, which meant in effect a 16d. rate.

India made a strong protest. She knew what the effect of such bolstering up of exchange was going to be on her industries and general economy. But what was meat for India was poison for England. And the latter's will always prevailed.

In spite of this policy, the exchange rate fell in 1894 to about 1s. 1d. With stringent deflationary measures, such as stoppage of all fresh coinage, with-



drawal of silver rupees from circulation and melting the same and thus creating an artificial stringency of currency, the exchange rate was raised from 13d. to 15.9d. in 1898.

### The Fowler Committee

Another Currency Committee, presided over by Sir Henry Fowler, was appointed in 1898. The Committee with a view to the "effective establishment of a gold standard and currency" recommended that

(1) The rate of exchange should be permanently fixed at 1s. 4d. gold;

(2) The British sovereign should be made a legal tender and a current coin in India;

(3) Indian mints should be thrown open to the unrestricted coinage of gold sovereigns on such terms and conditions as governed the three Australian branches of the Royal Mint;

(4) Profits from the coinage of silver rupees should be accumulated in a special reserve fund to be kept in gold to ensure the convertibility of the rupee currency;

(5) Rupees should remain unlimited legal tender;

(6) The Government should continue to give out rupees for gold; but no legal obligation should be imposed on the Government to give out gold for rupees.

There were various other recommendations, but these are the most important ones.

India was not to have any gold coinage of her own, nor was there to be any liability on the Government to provide gold in exchange for rupees. Thus from the very beginning no true foundation was laid for the establishment of a gold standard with a gold currency in spite of the Committee's clear recommendation accepted by the Secretary of State, for the establishment of an "effective gold standard."

In 1902, the proposal of minting sovereigns in India was dropped, as the British Treasury offered stiff opposition to it from more than one angle. The Government of India themselves admitted in their despatch to the Secretary of State that "no public explanation was given in India of this sudden recession from what had hitherto been regarded as an essential feature of the currency policy inaugurated in 1893 and definitely established on the recommendations of the Currency Committee of 1898." And the gold standard reserve came to be located in London, the profits on silver coinage being remitted there from time to time under the direction of the Secretary of State.

The Fowler Committee had recommended that this Reserve should be kept in the form of gold. The Secretary of State interpreted gold to mean also securities which could be turned into gold, and as the result of this interpretation the Gold Standard Reserve came to consist very largely of sterling securities which, as the outbreak of the World War in 1914 was soon to demonstrate, were by no means the same thing as gold. And in 1907 a substantial sum was drawn from that Reserve even for expenditure on railway development.

Thus in place of the proposed gold standard we came to have the gold exchange standard which lent itself excellently well to manipulation in England's interest. The gold standard to which the authorities stood committed was given a quiet though indecent burial. But even the gold exchange standard could not survive long.

In 1913, the Government of India appointed another Commission under the chairmanship of Mr Joseph Austin Chamberlain to make recommendations particularly with regard to the location and use of reserves and balances and the measures taken to maintain



exchange and to report whether the existing practice in such matters was conducive to the interests of India. The Commission set its seal of approval to the then existing practice and reported that to encourage an increased use of gold in internal circulation was not to India's advantage and that the people of India neither desired nor needed a gold currency. As regards the location of the reserves, they naturally voted for London. It was curious that the Chamberlain Commission should have reported against the gold currency saying "it was neither desired nor needed in India." Sir James Begbie, one of the members of the same Commission, wrote in his note of dissent that the Indian public preferred gold to silver rupees. From 1909-10 to 1913-14, there was on an average an annual absorption of about 9 crores of rupees and of 11 crores of sovereigns and half-sovereigns which conclusively proved that India preferred gold to silver.

### World War I

With the outbreak of World War I, new problems arose. Between 1914 and 1918 India had a surplus export which averaged nearly 78 crores of rupees per year. In the quinquennium preceding the war, the corresponding figure had been 80 crores per year. But on account of the free import of treasure in the pre-war period, it was not difficult for India to receive the payment due to her. India imported from 1909-10 to 1913-14 treasure at the rate of 36 crores per year against her export surplus. But during the five years of the war, India received on an average only 10 crores of treasure per year because of the disappearance of gold from the free markets of the world. India thus ceased to receive actual payment for the goods and services that she continued to supply on credit to Great Britain. In the



words of Sir William Meyer, the then Finance Member, "India was rendering to the Empire in financing war expenditure abroad an essential service." India had to incur huge expenditure on account of the Allies without being reimbursed either in gold or silver. This caused her serious inconveniences and even loss, which were called by the Finance Member India's "war sacrifice."

The note circulation which amounted to 66 crores in March 1914 rose to 183 crores by December 1919. All this expansion of the note currency was backed merely by British Treasury bills. Sir William Meyer again stated the truth when he said "few people I think realise the extent to which we have been able to assist His Majesty's Government by these operations."

To put the position in a nutshell, we were providing large quantities of goods and services in India and abroad to His Majesty's Government for war purposes for which we were paid neither in goods nor in silver nor in gold, but in British Treasury bills. Did we have inflation? If we had inflation "it was different from the inflation witnessed in most of the belligerent countries." It was caused by the acceptance in London of payment in sterling which could not be repatriated to India because India had no power to demand such repatriation. And then another extraordinary thing happened. As a result of inflation, the exchange rate should have been expected to fall. But suddenly the rupee exchange began to appreciate. With the rise in the price of silver the Government started stepping up the exchange rate which had been fixed at 1s. 4d. gold. Almost overnight, the so-called gold exchange standard was converted into a kind of silver standard and the public taken unawares.

Had India been on a real gold or gold exchange standard, the rise in the price of silver would hardly

have mattered. The Government could have easily reduced the silver content of the rupee and thus met the silver scarcity so long as it got gold in exchange for its outgoing rupees or for its exports. The silver rupee was only a token coin—a kind of note printed on silver. But the fact of the matter was that although at the end of the last century the Indian currency system had been switched over from the silver to the gold standard, subsequently converted into the so-called gold exchange standard, there was always a mental reservation on the Government's part in treating it as such. And as soon as the storm reached a high pitch, they threw the gold exchange standard overboard, and practically went back to the silver standard without saying this in so many words. That explains their action in raising exchange from 1s. 4d. by successive stages. As the silver scarcity grew, the exchange rate rose and by December 1919 it had gone up as high as 2s. 4d.

In 1918, the United States Government released nearly two hundred million ounces of silver for the Government of India. A number of other measures were taken at this end to bring the situation under effective control, but they were not quite successful. The convertibility of notes into silver rupees became increasingly difficult and this even led to a small discount on notes in many parts of the country.

## 2 S. Gold

So in 1919 a Committee was appointed under the chairmanship of Sir Henry Babington Smith to examine the situation and make its report. This Committee came to make a most extraordinary recommendation. It recommended that the exchange value of the rupee should be fixed at 2s. gold. At the time of the publication of its Report, the exchange rate was about



2s. 4d. sterling. Since, however, the recommendation was that the rupee should be linked to 2s. gold, the exchange rate shot up to 2s. 10d. sterling which was equivalent to 2s. gold. We had inflation and at the same time we had such an appreciation of the exchange value of our currency—we came very near performing a miracle in the modern age. From silver to gold, from gold to gold exchange, from gold exchange back to silver and from silver to gold again—our peregrinations had been as desired and dictated by Whitehall, causing severe injury to the country's interests.

The high rate of exchange was recommended on many grounds including the altruistic one that it would cheapen imports and thus contribute to a lessening of discontent. Mr. D. M. Dalal, the only Indian member of the Committee, strongly opposed all this and wrote a minute of dissent. He was for maintaining the old ratio of 1s. 4d., but his was bound to prove a cry in the wilderness.

In the teeth of strong popular opposition in the country, the Government decided to accept the majority recommendations and launched on a plan of severe deflation—severer than the one adopted at the end of the last century in order to make effective a rate of exchange higher than the market rate.

On 2nd February, 1920 the Secretary of State fixed the price of one rupee at 11.30016 grains of fine gold. With the rupee so dear and sterling so cheap, there was bound to be a very large demand for the latter. All those interested in remitting money from India to England, including the importers and the British element in the Services, started demanding large amounts of sterling. The Government found it difficult to meet this enormous demand with the result that exchange began to sag. Though exchange rates in the



free market dropped, the Government continued to offer to sell sterling at the statutory rate. Naturally, this stimulated a speculative demand for sterling. Yet, the Government obstinately went on selling sterling cheap. When they found it impossible to maintain exchange at 2s. gold, they retired to 2s. sterling and continued to fight the battle until September 1920 when they decided to desist from the attempt to maintain a fictitious exchange rate.

Much damage to Indian economy, however, had already been caused. 55 million pounds of sterling were sold at rates varying from 2s. to 2s. 10d. Compared with the exchange rate of 1s. 4d. the loss to India must have been something like 24 million sterling. Even gold was sold at prices cheaper than those prevailing in the open market. Thus for some time there continued a virtual loot of India's sterling and gold. The lucky few who got allotments from the Government either of sterling or gold made their pile without any effort. Sir Malcolm Hailey, the then Finance Member, when asked who was responsible for this loot, whether Whitehall or Delhi, said in reply: "I regret it is not within the power of Government to answer these inquiries."

But this does not complete the story of India's suffering. India's favourable balance in respect of her private trade in merchandise amounted to about 126 crores in 1919-20. The next year the favourable balance was converted into an unfavourable one, the deficit being something like 80 crores. India's industries were either crippled or ruined. All that came to be accumulated during the war in the shape of gold or sterling was squandered without any compunction.

During the war, India was not paid for her goods and services in gold or goods, but only in sterling. She had expected to gain some advantage in the post-war

period through a proper utilisation of her sterling resources. But before India could do anything of the kind, they were made to vanish in thin air. And she was saddled with huge budgetary deficits, besides. From 1918-19 to 1922-23 there were budgetary deficits amounting to nearly 100 crores of rupees.

But did the Government drop the 2s. rate? No. The exchange rate had sunk to 1s. 4d., but the Government still continued to stick to the fictitious rate of exchange in the hope that by deflationary measures they would some day be able to achieve their object. Mr. C. H. Kisch, Financial Secretary, India Office, stated that "Government felt it incumbent upon itself to take in such indirect measures as might tend towards checking the fall in exchange and as might create conditions favourable to its gradual recovery."

When by August 1921 the exchange rate had fallen below 1s. 4d. India demanded that it should be stabilised at about 1s. 4d. But the India Office had its own designs. What it wanted was to push up exchange by deflationary measures so that it could be helpful to imports. By August 1925 exchange had gone up to slightly above 1s. 6d. Even the Government of India then did not like that there should be further appreciation, and so cabled to the Secretary of State on 8th October, 1924 saying "we are convinced that the time has come when we should decide against any attempt to push the rupee above 1s. 6d. . . . the stringency in the market is the direct outcome of Government action in contracting currency. . . . The volume and importance of the opposition to this policy is increasing." But the Secretary of State would not listen. The Government of India again pressed their point. They said both Indian industry and export trade would be adversely affected by any higher rate. The outcome was an-



other Commission so constituted as to make its vote in favour of the maintenance of the 1s. 6d. a foregone conclusion.

## The 1s. 6d. Rate

The Gold Standard was restored in Great Britain in May 1925 and on August 25 in the same year was appointed the Hilton Young Commission to report on the Indian Exchange and Currency system and practice.

The Commission's labours occupied about a year and it submitted its report in July 1926 by which time the 1s. 6d. gold rate had been effective for about a year as a result of the deflationary policy pursued by the Government.

The majority of the Commission recommended stabilisation at this rate mainly on the ground that prices had preponderantly adjusted themselves to this rate and that so far as wages were concerned "considerable progress had been made in the process of adjustment." Indians knew that the technique of first making the rupee scarce, forcing up the exchange value thereby and then appointing a commission to secure its verdict in favour of the *fait accompli* was for them nothing new. There was only one independent Indian member on the Commission, viz., Sir Purshotamdas Thakurdas. He strongly dissented from the recommendations of the majority. He exposed the hollowness of the arguments employed by the majority and contended that it was dangerous in the interest of India to fix exchange so high when economic adjustment to the rate recommended was far from complete and when there were actual apprehensions in well-informed circles of a fall in gold prices. "Insistence on stabilisation at 1s. 6d.", he wrote, "will not only produce, but will prolong the profound disturbance of economic condi-



tions throughout India which is just beginning to be perceived, and the worst effects of which are still to come"—words which had almost a prophetic ring about them. A similar warning had been given by Mr. Dalal when opposing the 2s. gold rate, he had said: "The probabilities are that with the higher sterling cost of the rupee, the demand for Indian produce will fall off, while remittances from India being cheaper in rupees, imports will be stimulated. If these probabilities should materialise, India's trade balances will become less favourable to her than they have been or it may be the trade balances will turn against her." Our rulers paid heed to neither of the two warnings though, unfortunately, both turned out to be true to the letter.

The Hilton Young Commission had made a number of other recommendations with a view to the switch-over now to a gold bullion standard and the establishment of a Reserve Bank to be vested with the control of both currency and credit. Government decided to tackle the question of the ratio first and accordingly in 1927 they introduced a Bill in the Assembly as an interim measure providing for stabilisation at 1s. 6d. This caused a terrific storm throughout the country, the echoes of which have not yet died out. In the Assembly, Government carried their point by the very narrow majority of 3 votes—68 against 65. The minority consisted of non-officials; the majority almost wholly of the nominated element including the official bloc. No other issue debated in the Assembly has perhaps aroused public interest in the same degree nor can one recall another occasion on which canvassing for votes on the official side was characterised by the same methods as on this.

The course of events after the fateful decision on the issue was a confirmation of the worst fears of Gov-

ernment's critics. With the exception of 1928, exchange remained persistently weak and in maintaining it Government dissipated India's gold and silver assets, added to her unproductive debt, dealt a stunning blow to her trade and industry, brought the country's credit to the verge of collapse and aggravated the distress which the Depression was to bring in its train. Deficit budgets, with increased taxation, became a normal feature of this period.

The annual absorption of currency in the quinquennium preceding World War I was on an average about Rs. 22½ crores. In the quinquennium ending 1919-20 the figure was about Rs. 50 crores. But from 1920-21 to 1930-31 there was deflation to the tune of about Rs. 133 crores. The bank rate in Calcutta ruled as high as 6 to 8 per cent and the monetary stringency experienced by trade and industry was paralleled only by what they had had to go through in the nineties before 1s. 4d. came to be stabilised.

### **Came the Depression**

The Indian producer, chiefly the agriculturist, found himself between two fires. "If gold prices fall—and Indian prices must follow such a fall—India will be faced with a still bigger fall, the double effect of the operation of the present rate of 1s. 6d. and also the world fall"—Sir Purshotamdas had said this in his note of dissent and the possibility he had envisaged became a reality when the Depression came and the Indian masses whose mainstay is agriculture were hard hit by the slump on one side and by a bloated exchange rate on the other.

By September 1931, England had to go off the Gold Standard. India followed suit, with this difference that the rupee was not left free to find its own level but was



linked to sterling at the rate of 1s. 6d. To this day it has remained so linked, with the result that war expenditure incurred by His Majesty's Government in India and financed by the Indian Government has caused a great increase in currency circulation and accumulation of sterling assets in the United Kingdom.

When the great Depression in the thirties came, India suffered more than any other civilised country. The fall in the index of general prices was greater in India than in many other countries, but the depression in agricultural prices was more marked and prolonged.

In regard to commercial crops like raw cotton, raw jute and oil-seeds, which had to be sold in the market or exported, the fall in prices had the effect of cutting the income of the agriculturist by one-half generally. Even in respect of food crops the farmer was forced to retain a smaller proportion of his produce for his own use and sell the rest at greatly reduced prices in order to meet the fixed money dues in the form of land revenue, interest and debts, rent, etc., and to secure consumption articles for cash such as cloth, sugar, and kerosene.

This was characteristically reflected in the sphere of exports. The value of India's export trade tumbled from Rs. 319.15 crores in 1927-28 to Rs. 132.27 crores in 1932-33, the nadir of the Depression, and even in 1936-37 was only Rs. 196.13 crores. But the important fact about it was that it did not reflect a proportionate decline in the physical volume of the commodities exported. There was no doubt a reduction in the quantity of exports, but the fall in prices was the more important cause of the collapse of agricultural incomes.

In consequence of the fall in prices, the burden of rural indebtedness rose from Rs. 900 crores in 1928-29 to Rs. 1200 crores by 1933 which in real terms amounted to Rs. 2200 crores, assuming that no repayment of debt or



payment of interest was made. There was grave distress in the rural areas, a big fall in land values, an increased unwillingness to lend, demand for greater security and contraction of credit. Sales of cattle, ornaments, household articles and lands were the common means of meeting dues and buying necessities of life.

It would have been difficult—almost impossible—for Government to maintain the link if they had not received adventitious aid from the export of gold on a huge scale which now came to be a feature of India's foreign trade. Between 1931-32 and 1939-40, the total value of such gold exports was nearly Rs. 382 crores. Things would have been too bad but for the contribution made by such exports to the maintenance of the surplus which enabled India to meet her liabilities under various heads and for the support which they thus brought to exchange. The large exports of gold, however, were only an indication of the plight of the agriculturist who was now living on his capital.

Government's policy in the era was absolutely one of do-nothing. They maintained a high ratio and refused to reduce it, contracted currency, inflicted crushing taxes and surcharges on trade, industry and agriculture, undertook no public works or industrial construction, but took credit for adherence to orthodox finance. This sums up the history of a decade of distress.

The Hilton Young Commission had recommended the establishment of a central banking institution vested with control of both currency and credit. No progress could be made with the necessary legislation for some years because of the controversy aroused time and again by the Government's proposals relating to the Bank's constitution. Ultimately a compromise was

reached in the Legislature and the relative measure having been passed, the Reserve Bank of India was inaugurated on the 1st April, 1935.

### World War II

This brings us to World War II.

Much that has happened in the field with which we are concerned here is but a repetition of history inasmuch as there has again been a large visible and invisible export of goods and services on account of His Majesty's Government for which India has received no tangible *quid pro quo*, the procedure adopted being, as in World War I, to expand the currency here against sterling bills placed in the reserve in London. In other words, we have had to supply those goods and services on credit and in the process we have come to accumulate sterling balances amounting in July 1944 to nearly £750 million. This is after making adjustments which have included the repatriation of India's sterling debt and the net result of which has been to transform her from a debtor to a creditor country.

This transformation has cost India dear, for she has been making those goods and services available to the Allied Powers only by practising greater and greater self-denial verging on starvation. India's standard of living was low enough, and it was further lowered so that England might have what she needed. The result has been an all-round decline in India's consumption of goods including the very necessities of life. There is no desire to belittle the contributions made by other countries within the British Empire, but there is not the same uniqueness about them as about India's. Countries like Canada or Australia or South Africa have had a much higher standard of living. The lowering of that standard in their case, therefore, was not



as much of a sacrifice as in the case of India who could ill afford to tighten her belt any further. So far as real consumable wealth is concerned, India has much less today than she had at the outbreak of war, for she has stinted and starved herself in order to make available a large variety and quantum of goods as well as services for the success of the Allied cause. And India has made this supply at prices which compare very favourably with those which the ordinary consumer has had to pay in respect of his own purchases. One may cite only one instance out of many by referring to the sale by India to Great Britain of large quantities of silver at prices far below those ruling in the market here or in the United States at the time. Many other articles were supplied at controlled prices which were much below the market rates. All this shows how unique India's sacrifice has been. India has famished, not fattened, as a result of the war. To misrepresent the fact is to add insult to injury. The millions who died of famine—a war product—were no less war casualties than those who died on battle-fields.

### **Cure for Economic Ills**

Some have spoken glibly of the famine and scarcity being solely due to the increase in the volume of currency and have prescribed as the panacea for our economic ills a substantial reduction in that volume. This prescription is based on a wrong diagnosis.

The theory that it is the increase in currency which is directly responsible for the scarcity and that the only way to bring relief to the consumer is to mop up surplus purchasing power has come very handy as an excuse to those in authority whose only concern is to get finance in all possible ways without concerning themselves about its reaction on the economy of the people



who need an increased supply of goods, since war has become a new and a greater consumer of them. So the authorities with a fanaticism worthy of a better cause have devoted themselves to draining money through high taxation and loans—voluntary or compulsory—and utterly neglected the question of increased production. This has not helped to improve the lot of the consumer. Black markets still flourish; the consumer's woes continue and even multiply because there is great scarcity of goods. In other countries production has increased during the war by leaps and bounds. In India, however, it has gained little ground. And even the level of industrial productivity that she reached by 1941, viz., an index number of 129 had dropped by May 1944 to 113. Agricultural production has shown practically no increase. No mopping up of the so-called purchasing power can create more food or cloth. At best it can only lead to an even distribution of distress. And India wants not its distribution but elimination.

### India's War Expenditure

But while India has made little progress on the production side, her expenditure has grown enormously out of all proportion to her means. The following figures will tell the tale: For 1944-45 this is estimated at 397 crores (Revised). During the quinquennium 1940-41 to 1944-45 the total military expenditure has amounted to nearly 1,150 crores. This is exclusive of about 150 crores as Defence Capital expenditure and of the amounts spent on Civil Defence and other purposes connected with the war, which are included in Civil Estimates. The figures relating to Civil Expenditure for the Centre and the Provinces in 1938-39 were 40 crores and 86 crores respectively. The corresponding figures in 1944-45 were 116 crores and 158 crores.

The total expenditure, both Civil and Military, at the Centre and in the Provinces, has amounted to about 2,143 crores over the five years 1940-41 to 1944-45 or an average of about 428 crores against a pre-war average of about 185 crores.

Our net exports in the five years 1939-40 to 1943-44 as measured by our purchases of sterling totalled 522 crores. Over and above the visible exports, India supplied goods and services to His Majesty's Government which from the outbreak of war to 31st March, 1944 roughly totalled 935 crores. Thus our total visible and invisible export surpluses amounted during this period to nearly 1,457 crores. This too may for the time being be treated as war expenditure since India had to sacrifice goods to that extent even while she herself lived on meagre subsistence rations. Thus India spent nearly 720 crores a year during this period against 185 crores before the war.

### **Our Sterling Balances**

It is no wonder that since 1943 there have been famine, distress, disease and death. And this chapter has not yet come to a close. Our export surpluses which thus amounted to nearly 1,457 crores did not bring us in return any other *quid pro quo* than I.O.U.'s of His Majesty's Government. This explains our sterling assets in England. Including a small reserve that we had at the commencement of the war, our total sterling assets amounted to over 1,500 crores. After the repatriation of our sterling debt amounting to nearly Rs. 397 crores and after meeting other sterling commitments, we had sterling worth about Rs. 950 crores held by the Reserve Bank on the 31st March 1944. Since then the amount has grown to over Rs. 1,000 crores.



The total notes issued and the assets held against them by the Reserve Bank before the outbreak of war and on 12th January 1945 were as follows:

(Crores of Rupees)

			August 1939	January 1945
Total notes issued	...	...	217	1,040
Gold coin and bullion	...	...	44	44
Sterling securities	...	...	61	925
Rupee coin	...	...	75	13
Rupee securities	...	...	37	58

It will thus be seen that most of India's new currency since the commencement of war has been issued against sterling holdings. India's sterling credits thus become a most important factor in the post-war economy of India. These sterling balances have been built up on the foundation of suffering and starvation but if England discharges her debt in an equitable manner, it should go a long way towards India's recuperation.

Neglect to increase production—agricultural and industrial—has brought about a serious calamity in India. Millions have died. And many more millions are suffering from want of food, cloth, housing and medicine. The distress will not end until efforts are made to increase production all round. There are enormous possibilities of increasing production and raising the standard of living by at least 100 per cent. through planned economy. This could only be done if there was a Government that enjoyed the fullest confidence of the people and succeeded in securing their complete co-operation in the scheme that might be launched. Such a scheme could have only one object, the economic uplift of the people. No consideration for any interest that may clash with this object could be shown. A National Government alone can undertake



such a bold enterprise. And even a National Government can succeed only if it had the sympathy and support of all sections of the people.

## II

### GOLD STANDARD AND RESERVE BANK\*

Sir, as has been stated by my Honourable friend, Sir Purshotamdas Thakurdas, any measure calculated to take away the control from the Secretary of State should only be welcomed by us. But the Bill as drafted at present and placed before the House is very unsatisfactory in many ways and, therefore, whether the House should finally accept the scheme of the Reserve Bank or not would very much depend on its constitution and the provisions which may be made about the location and composition of the reserves, and also on the representation which Indians may receive in it. It has been stated in the Preamble that this Bill is to establish a gold standard currency for British India. I hope that these words will not mislead this House. This Bill is calculated neither to give a gold standard nor a gold currency to India. If I am to understand properly the meaning of a gold standard, I think under the scheme of a gold standard the silver rupee ought to represent as a token coin a given amount of gold, but on reading the Bill carefully one can find very easily that under the Bill there is no fixing of any given amount of gold which the rupee will represent. As a matter of fact the buying and selling rates of gold by the Government will fluctuate

\*Speech in the Indian Legislative Assembly on 25th January, 1927 during the discussion on the Gold standard and Reserve Bank of India Bill.

to the extent of  $2\frac{1}{2}$  per cent. The Government will sell gold at the rate of Rs. 21-10-10 only when the exchange is 1s. 5-13|16d. and will buy gold at the rate of Rs. 21-3-0 per tola† only when exchange is 1s. 6d. That means that the price of gold itself, which is intended to be the standard of value, will fluctuate to the extent of  $2\frac{1}{2}$  per cent. or 8 annas per tola.

The Honourable Sir Basil Blackett: Can the Honourable Member suggest any country where it is not true?

Mr. Ghanshyam Das Birla: I will suggest the case of England, Sir, where the selling price of gold by the Bank of England is 77s. 10½d. per standard ounce and the buying price 77s. 9d. per standard ounce. That means about half an anna per tola, whereas in India the difference will be about 8 annas a tola. Therefore it cannot be called a gold standard.

### A Gold Currency

The Honourable Sir Basil Blackett was kind enough to tell us that the question of a gold currency will entirely depend on the will of the Indian Legislature. I challenge the statement. I want Sir Basil Blackett to enlighten us as to how under the gold bullion standard proposed under this Bill he would be able to introduce a gold currency in India at any time. I submit that under the scheme of a gold bullion standard as proposed under this Bill India can never get a gold currency even after 20, 30 or 40 years. In order to have a gold currency we must have a gold standard as proposed by the Honourable Sir Basil Blackett himself before the Currency Commission. I fail to understand why the Honourable the Finance Member, who submitted a scheme for a gold standard and a gold currency only a

†One tola is 180 grains.



few months ago before the Currency Commission, wants to go back on it, and after rejecting the same he himself wants to sing the praises of this new gold bullion standard. We have had many defects in the past in our currency system, and if for nothing else, just for preventing future manipulations by the Government we must have nothing short of a gold standard and a gold currency. I hope that when this Bill comes up for proper consideration before the House it will strongly press for a real gold standard with a gold currency.

With regard to the question of the ratio, I do not think that this is the proper time to discuss it, but I was very much interested to hear the remarks which fell from Sir Basil Blackett about the recent contraction of the currency. He tried to justify the recent contraction of currency by saying that it was due to the fact that the rupee by itself came into the reserve of Government because it was not required in the currency. That is the conclusion at which he arrives; but may I ask whether this contraction of currency was automatic or whether the Government effected this contraction in order to stabilise exchange at 1s. 6d. or in anticipation of the exchange going down below 1s. 5½d.? I hope that Sir Basil Blackett will admit that this contraction was not automatic but was brought about by the Government in order to stabilise exchange at 1s. 6d. or rather to prevent exchange from going down. If Sir Basil Blackett could contract a very huge amount of currency at a time when generally the season is at its busiest and when currency is specially required in the country, I do not know what he will have to do when the season is very dull after three or four months. If Sir Basil Blackett realizes his mistake and if for the same reason he wants to

postpone the consideration of the question of ratio, then I would welcome it, because I do not want Sir Basil Blackett to commit the same mistakes as were committed in the past by Sir Malcolm Hailey. Sir Malcolm Hailey who was then Finance Member could commit many such mistakes, but an expert like Sir Basil Blackett should be the last person to emulate his example.

### **Location of Reserves**

There is also the question of location of the gold reserves and of their composition. If an automatic expansion and an automatic contraction are to be provided for under this Bill, I hope that there will not be much necessity of keeping a large amount of reserves in any other countries than India. Similarly, having regard to the past experience which we have had of England being divorced from the gold standard, I hope that proper safeguards will be provided against any large investment of our gold in sterling securities or in any other securities except those of the Indian Government.

### **Representation of Indians**

Then there is the question of the representation. As I read the Bill, I do not find sufficient provision in it about the representation of Indians on the Board and in the management. There is no guarantee that this new Reserve Bank will not be ruled, will not be dominated, by a particular group of financiers or by a particular community. I hope that when the proper time comes, the House will consider as to how best they can provide for proper representation of Indians and proper control of the Bank by Indians.

### **Scheduled Banks**

Regarding the Schedule of Banks, much has already

been said by my Honourable friend, Sir Purshotamdas Thakurdas. I regret to find that names have been included of banks which have very little connection with Indian industries or with Indian trade; for instance, I find the inclusion of Japanese banks and of French banks and also of such English banks as are not connected, directly or indirectly, with Indian trade. If the new Reserve Bank is to act as a bankers' bank in the best interests of India, mainly for the benefit of Indian industries and trade, then we should see to it that more Indian banks are included in the schedule, and those banks which have not much connection with Indian business and trade are excluded. I have got nothing more to say, on this point. I quite agree that this Bill should be circulated for opinion, and I hope that, when the proper time comes, the House will take into consideration all these points.



### III

#### OPPOSITION TO 1s. 6d.\*

Sir, I rise to support the amendment which has been moved by my friend, Mr. Jamnadas Mehta. I do so on behalf of a constituency, which is mainly agriculturist. Besides this, I support this amendment on behalf of the Indian Chamber of Commerce of Calcutta of which I happen to be President and which is representative of almost all forms of interests such as of importers, exporters, bankers, industrialists, insurance companies, and shipping companies. (Mr. K. Ahmed: "And the cultivators?") I am representing the cultivators in this House. I represent a constituency which, as I have already said, is mainly an agriculturist constituency. Being myself a zemindar, I can claim to speak on behalf of the agriculturists, of the 3,000 poor tenants who live in my zemindari. Before I proceed to meet the arguments advanced by the supporters of the 1s. 6d. ratio, I would like to address a few words through you, Sir, to the Honourable Members of this House. When Sir (then Mr.) Dadiba Dalal made his recommendation in favour of 1s. 4d., and appended his minute

\*Speech in the Indian Legislative Assembly on 8th March, 1927. On the Currency Bill being taken into consideration, Mr. Jamnadas Mehta moved an amendment seeking to substitute 1s. 4d. for 1s. 6d. proposed in the Bill as the rate at which the rupee was to be stabilised. This amendment was lost, the historic voting being 65 for and 68 against it. The three popular Parties in the House led by Pandit Motilal Nehru, Pandit Madan Mohan Malaviya and Mr. M. A. Jinnah respectively voted for 1s. 4d., but 1s. 6d. was eventually adopted as a result of the weight cast in its favour by the official bloc, supported by some nominated non-officials.

of dissent to the Babington Smith Committee Report, the whole country lodged its strong protest against fixing the ratio at an artificial rate of two shillings. Unfortunately, in the Legislature at that time we had not an elected majority, and the Government was in a stronger position to put on the statute-book the ratio of two shillings. Things are quite different today. Fortunately, we have got a Legislature which consists of a majority of elected Members and our responsibilities are very great. It is well known that the entire country has sent its protest against the artificial ratio of 1s. 6d. which is proposed to be put on the statute-book by the Government. Telegrams and petitions signed by thousands of people all over the country have been sent in to the Members of this House. (Mr. K. Ahmed: "They are interested persons.") All the Indian Chambers—my Honourable friend, Sir Walter Willson, when he was referring to the Chambers of Commerce probably had in mind only the European Chambers of Commerce (Sir Walter Willson: "The Bengal National.")—all the Indian Chambers of Commerce have unanimously protested against the ratio of 1s. 6d. (Sir Walter Willson: "Not the Bengal National"). Even the Bengal National put forward their views before the Currency Commission in favour of 1s. 4d. (Sir Walter Willson: "But they have now changed their minds.") And it would have been better if Sir Walter Willson had inquired of the Bengal National Chamber of Commerce whether this telegram which is received just now is a telegram sent by the Chamber after carefully reconsidering the question at its general meeting, or whether it is only a telegram sent by the Secretary or President as the case may be without consulting the other members. I am myself a member of the Bengal National Chamber of Commerce and I can tell the



House that never in my presence, or to my knowledge has this question been reconsidered or re-opened at a general meeting of the Bengal National Chamber of Commerce, and therefore it is unfair on the part of the Secretary of that Chamber to circulate such telegrams among the Members of this House.

Sir Walter Willson: On a point of personal explanation, I trust that the Honourable Member did not understand that telegram was sent to me. I was careful enough to say that it appeared in the "Indian News Agency" telegrams.

### **The Provincial Angle**

Mr. Ghanshyam Das Birla: But it does not make any difference. Anyhow, the duty of this House and particularly of the elected Members is very clear. It is rather significant here that even some of the Provincial Governments have not been able to give their whole-hearted support to this ratio of 1s. 6d. The Punjab Government says:

"In regard to the rate at which the rupee should be stabilised there is some difference of opinion. On the understanding that the rupee can be maintained at a rate corresponding to an exchange ratio of 1s. 6d. the Governor in Council accepts by a majority the arguments of the Currency Commission in favour of that rate."

It is to be noted here that the Punjab Government—the Government of a province which is almost entirely agricultural—find it impossible to give its whole-hearted support to 1s. 6d. and it extends its support only on a certain condition. The condition is—only if the ratio can be maintained at 1s. 6d. Then and then alone can they support this ratio. Even then, they support it only by a majority and not unanimously.



Sir Malcolm Hailey\* knows very well what it means to maintain an artificial ratio and having regard to his past experience I may take it, Sir, that he has thrown a friendly hint to Sir Basil Blackett, "Think twice before you launch on this new wild project." The Bombay Government has been wise enough not to express any opinion on this matter. Mr. Thompson, the Dean of the Faculty of Commerce and Economics in the Allahabad University, cannot support 1s. 6d. and says:

"In the United Provinces there are now many settlements which were made before 1914 when the ratio was 1s. 4d. and it would seem unjust that this should be increased in terms of agricultural produce by 12½ per cent."

He says that "there should be something sacred about the standard of value," and his conclusion is: "Therefore, on the whole, I favour keeping the old rate of 1s. 4d."

Mr. Darling,† Commissioner of Income-tax in the Punjab, submits this opinion:

"The rate proposed has the obvious advantage of approximating to that which has been more or less in force for the last two years. Its drawback is that in benefiting the consumer, the importer and creditor at the expense of the producer, the exporter and the debtor, it is likely to operate to the disadvantage of the agricultural community, that is to say, to the disadvantage of the majority of this country."

I have deliberately cited the opinions of these authorities who can claim to represent the agriculturists' opinion. They go clearly to prove that 1s. 6d.

\*Raised to the peerage in 1936; was Finance Member of the Government of India at the time of the sale of Reserve Councils for maintaining exchange at 2s.

†Author of "The Punjab Peasant in Prosperity and Debt" (1935); Financial Commissioner, Punjab, 1936-39.

is not in the interest of the agriculturist. As I have stated, apart from these we have been receiving strong protests from all parts of the country against fixing the ratio at 1s. 6d. I wish to say to the Members of this House that their duty is very clear. It is quite possible that the Government may be able to carry this measure through, with the support of nominated Members, mysterious brokers, reputed contractors and pampered professors, but I may say that even if we are defeated, our defeat will be glorious and if the Government are victorious, their victory will be the victory of wrong over right. I again beg to appeal to this House to vote solidly against the 1s. 6d. ratio with one will and one voice.

### European Members

I wish to address a few words to the European Members of this House. Unfortunately during the days of the Reverse Councils policy they played a "rather sorry" part by supporting the Government in favour of 2s. I am sure they must be rather regretful to-day that they extended their support to the Government and I hope that if they are capable of learning anything from the bitter experience of the past they will pause to reconsider their attitude before blindly following the Government and going into the wrong lobby. I wish to tell my European\* friends in this House, that although they were not all of them born and bred in this country, they have eaten the salt of India and I hope they will not be untrue to the salt. I will also remind them of the message of His Majesty the King Emperor in which His Majesty said:

"I earnestly pray that in the Council House about to be opened wisdom and justice may find their dwell-

\*Of the European Members of the House, two voted for 1s. 4d. They were Mr. T. A. Chalmers and Sir (then Mr.) T. Gavin-Jones.



ing place."

I have not the least doubt about their sense of wisdom, but I hope that they will also prove to the Indian Members that they are not without a sense of justice.

### **Blackett's 11 Points**

To come to the main point, I should like to say, that for the last six months the Honourable the Finance Member has made great attempts to canvas opinion in the country in favour of 1s. 6d. I have had the honour of listening to his speeches and of reading his speeches in cold print. I also had the honour at the Indian Chamber of Commerce, of listening to his 11 points, which is one more than the well known Ten Commandments and three less than the famous 14 points of the late President Wilson. The Finance Member makes a complaint that we did not reply to his eleven points. I beg to submit to this House that the Honourable the Finance Member was our distinguished guest and we did not desire to put him to any inconvenience as he definitely told us then that the time at his disposal was very short. But we did not fail to discuss these 11 points in the press. Not only that. I personally after replying to his 11 points put him 9 questions in the press which have not up to this time been replied to by the Finance Member.

The Honourable Sir Basil Blackett: If the Honourable Member will permit me, I said no serious reply had been made to my 11 points.

Sir Purshotamdas Thakurdas: That is a question of opinion then.

Mr. Ghanshyam Das Birla: Our serious reply or question is not taken as such by the Honourable the Finance Member. He did not care to reply to the 9 points we put to him and as I know my friend Sir



Purshotamdas is going to reply to his 11 points in detail, I need not detain the House on that point. Now, what did we find in the speech of the Honourable the Finance Member which he delivered yesterday? He began with the word "stability" and ended with the same. I do not at all disagree with the Finance Member that we ought to achieve stability. I am at one with him there, but it all depends on the sacrifice we have to make to achieve that stability. I cannot understand why the Honourable the Finance Member forgot all the charms of stability when Sir Purshotamdas Thakurdas wanted to bring in a Bill in the last Legislature to stabilise the rupee at 1s. 4d. I wish that he had shown the same love for stability which he is now showing. I again wish to assure the Honourable the Finance Member that I want stability but I want it at the proper rate, at the natural rate and not an artificial rate. We all know that during the abnormal period of the War almost every currency was driven away from its moorings. Now if three years back any one in England had suggested that sterling ought to be stabilised at its depreciated value I know what reply he would have got from Englishmen; and yet, in India the Government have the courage to discuss a measure which violates the sanctity of the standard of value.

### Adjustment Incomplete

The Finance Member has repeated in all his speeches two arguments in favour of 1s. 6d. One is that the 1s. 6d. is the *de facto* ratio, and the other is that prices have adjusted themselves to the new ratio. Now I do not think the Honourable the Finance Member means to say that it takes a very long time for those commodities which are either exported to or imported from foreign countries to adjust themselves to

any new ratio. I agree that it does not take even longer than a week for commodities which are imported or exported to adjust themselves to any ratio, whether it be 1s., or 2s. or 10s. But the real question is, whether the prices of those commodities which are produced internally and consumed internally have adjusted themselves to the new ratio. I want to ask the Honourable the Finance Member to prove by figures whether the general level of prices is adjusted to the new ratio of 1s. 6d. It ought to be borne in mind that after all our foreign trade is only about 5 to 10 per cent. of our total internal trade. Therefore, until he can prove that the general level of prices has been adjusted, it does not lie in his mouth to generalise and say that adjustment has been completed.

I feel great regret that this question of adjustment was not properly tackled even by the Currency Commission. Index figures have been cited from time to time. They tell quite a different tale. Yet those who were determined to give their verdict in favour of 1s. 6d. did not want to see what the figures showed and did not want to listen to what the figures said. I would again like to place the index figures before this House, because they have only just now been cited by my Honourable friend Sir Walter Willson. At present the Calcutta index figure is 146, the United Kingdom figure is 152 and the United States figure is 148. That is, the average of the world stands to-day at 150 as compared with 146 of Calcutta. These index figures are based on 100 for a period of time when the exchange ruled at 1s. 4d. Therefore, in order to bring a proper equation between these two index figures, the Indian index figure should be 134½ or something like that. Sir, I want to put this question to the Honourable the Finance Member—whether I am correct or not in assuming that, in



order to bring about an equation between the Indian index and the world index, on the basis of the new ratio, the Indian index figure ought to be about 11 per cent. or something like that, lower than the world index figure. The Honourable the Finance Member might say that meantime a lot of new tariffs have been imposed. I quite agree with him. Let him find out what those new tariffs are. These index figures are based on the average of prices of nearly 70 articles. Out of them only about 10 or 12, whatever that may be, are imported articles. Let him find out what was the tariff as it stood in pre-war days, and how the duties on imports have increased since then. I, of course, have worked it out, and I can say with all the emphasis at my command that he will be able to find out from the index figures that prices have adjusted themselves only to the extent of four per cent. and another 7 per cent. or more has yet to come. If he finds that I am wrong in my figures, let him come forward and prove to the satisfaction of this House that I am wrong and he is right.

The Honourable Sir Basil Blackett: I want to be able to follow the Honourable Member. What do 4 per cent. and 7 per cent. mean? That makes 11 out of 100. The Honourable Member says that prices have adjusted themselves to the extent of 4 per cent. and still 7 per cent. have to come; that makes 11.

Mr. Ghanshyam Das Birla: To the extent of 11 per cent.

The Honourable Sir Basil Blackett: I see the 11 per cent.

Mr. Ghanshyam Das Birla: So much about the index figures. He may say that the index figures are not reliable, but then I would suggest to him, is it right to use the index figures when it suits his purpose



and to say that they are not reliable when it does not suit him? Either he has to rely on the figures or find out some new method of proving that the prices have adjusted themselves. But as I said just now, it is quite possible that 5 or 10 or 15 years hence prices may adjust themselves to the new ratio but they are not adjusted to-day.

### Indirect Taxation

What happens after this? I ask, what happens after the prices are adjusted fully? Then begins, Sir, a new era of trouble. The debtor begins to lose to the extent of  $12\frac{1}{2}$  per cent. to the advantage of the creditor, to the advantage of the sahuکار, to the advantage of the Government. When the prices are fully adjusted, every public servant who is in receipt of a salary secures an increase of  $12\frac{1}{2}$  per cent. Similarly, all taxation is increased by  $12\frac{1}{2}$  per cent. This has been admitted even by the Right Honourable Sir Hilton Young, who was the Chairman of the Currency Commission, and he said it in so many words in the "Financial News" that if the Government was going to adopt a ratio of 1s. 6d., the land revenue ought to be reduced by  $12\frac{1}{2}$  per cent. Mr. Kisch\* in a note which he submitted to the Currency Commission said:

"It should be noted in this connection that an important part of their (i.e., Local Governments') income is derived from land revenue, which is either permanently fixed or only capable of slow expansion over an extended period".

And now simply by a stroke of the pen the Finance Member wants to unsettle the settlement of land revenue, he wants to increase taxation, he wants to increase the capitalist's capital to the disadvantage of

\*Secretary, Financial Department, India Office, 1921-23; Secretary to Indian Currency Committee, 1919.

the agriculturist, the tax-payer, the debtor, and so on. Let him say whether it is correct or not that after the adjustment the debtor begins to lose to the advantage of the creditor and that the Government revenues are increased automatically to the extent of 12½ per cent. I maintain that before the prices are adjusted, we have got one kind of suffering. Until the prices are adjusted, the foreign importer is encouraged to the disadvantage of the native exporter, and when the prices are adjusted, the debtor, the tax-payer, begins to lose to the advantage of the creditor, the Government.

### Currency Contractions

The other argument of the Honourable the Finance Member is that this is the *de facto* ratio. Now the history of this *de facto* ratio is very interesting. We all know that India is in the peculiar position of exporting or selling more than importing or purchasing. She has to receive a large surplus from the foreign countries and in order to get that surplus converted into local currency the Indian exporter has to depend upon the mercies of the Government. If the Government refuses to supply any new currency, the consequence is that the rupee must rise. This is the position in which we are situated.

Mr. Kisch of the India Office provided a statement to the Currency Commission in which he said that in pre-war days the annual absorption of currency amounted to about 22½ crores of rupees. If we accept that figure as correct—and I do not know what the Honourable the Finance Member considers to be the correct figure for the present time—there should have been an expansion of currency to the extent of about 140 crores during the last 6 or 7 years. Instead of that, what do we find? The Finance Member



contracted currency to the extent of about 45 crores up to August 1924, and after that he effected a further contraction of about 16 or 17 crores up to February 1927. During the last seven years he effected contraction to the extent of about 60 crores, while we should have had in this period an expansion of about 140 crores. He might say I am not correct, that he is correct. But he ought to justify the ground or grounds on which he contracted the currency. If we take the figures of our exports, of the balance of trade in favour of India, of general production for the last seven years as compared with 1914 or 1913, we find that in every direction there has been an increase. We find that while the average crop of rice in 1911 to 1915 was about 283 lakhs tons, the average from 1921 to 1926 was 313 lakhs tons. Similarly the crop of tea increased from 29 crore lbs. to 34 crore lbs. So with regard to cotton yarn, piece-goods, jute manufacture, coal, petroleum, raw sugar, ground-nuts, in every direction production has increased in India as compared with 1913 or 1914. Again, the population has increased. The balance of trade in favour of India has increased and the prices stand 75 per cent. higher than in pre-war times. Therefore, it will be rather enlightening to know, how with an increased price, with increased production, with an increased trade balance, with an increased population and with increased internal trade the Honourable the Finance Member could justify the contractions which he has effected during the last six years. He might say that the currency was redundant. But even the man in the street can understand that when there is scarcity of a commodity, its price goes up; when there is excess supply as compared with the demand, the price of the commodity goes down. What do we find today? Has the price of the rupee increased



or decreased? We find to-day the price of the rupee is ruling at *Is. 6d.* instead of at *Is. 4d.* And what is it due to? It is due solely to the fact that the demand is greater than the supply. This very fact that the rupee is dear goes to prove that we require more currency in the country than the amount existing at present, and therefore there is no ground for justification of this huge contraction which the Honourable the Finance Member has effected during the last seven years.

I hope when he gets up to reply to all the arguments which have been advanced from this side he will take the trouble to explain to us on what ground he has contracted this huge amount of currency during the last seven years, while an expansion was rightly due. I think it is his duty to explain this to the Members of this House and I hope he will take the opportunity of doing so.

Mr. President: If the Honourable Member desires to continue longer than five minutes, I think he had better continue his speech after the recess.

Mr. Ghanshyam Das Birla: I do not think, Sir, that I will take more than ten minutes.

### **A Fait Accompli**

Now it could be proved further by the telegrams which passed between the Secretary of State and the Finance Department as to whether this is a natural or an artificially puffed-up ratio. Mr. Jamnadas Mehta has already read part of the correspondence which was exchanged between the Secretary of State and the Government of India, but this is so very interesting that I propose to read some more extracts from the same. After effecting a large contraction in currency the Finance Department decided that the exchange should be stabilised at *Is. 6d.*, but unfortunately the

Secretary of State wanted that exchange ought to be allowed to go higher than even 1s. 6d., and this explains this protracted correspondence between the Secretary of State and the Government of India.

The Finance Member wired to the Secretary of State in October 1924:

"It is now beginning to be realised generally that the stringency in the market is the direct outcome of Government action in contracting currency, or rather in placing strict limits on possibilities of expansion."

He stated further:

"There is a serious risk of a financial crisis if we keep the screw on too tight."

And he then proceeded to say:

"The general policy which we have tentatively in mind would be.....to fix in our own mind on 1s. 6d. sterling as the figure at which we desire to stabilise rupee so long as this primary purpose is not endangered, which is only likely in the event of renewed falling in gold value of sterling; and to wait until gold and sterling are on a par before fixing the rupee by statute."

This was a telegram which the Finance Member sent to the Secretary of State in October 1924, which shows that as long ago as that the Government of India had made up its mind to fix exchange at 1s. 6d. But at the same time the Government of India realised the difficulty of fixing exchange at 1s. 6d. in the teeth of strong opposition, and therefore they wired to the Secretary of State:

"But we realise that questions of such fundamental importance should not be decided without a formal inquiry by some kind of committee."

"Formal enquiry by some kind of committee" is a phrase the significance of which I think will interest the House. I am sure after reading these telegrams



some of the members like Sir Maneckji Dadabhoy,\* will not feel proud of having served on a Commission which in the words of the Government was to conduct just a "formal enquiry".

Mr. Jamnadas Mehta in his speech on the 5th August stated that he had been asked by a Knight moderate, a member of the Council of State, whether he had seen the Report of the Currency Commission. When asked to explain what he meant, the knight member remarked that the report had already been written out and that it required only to be signed. We can now see that Mr. Jamnadas was not far wrong in his reading of the situation. However, the Finance Member sent a further wire to the Secretary of State:

"Increase in the rate beyond sixteen pence is to be deprecated in the best interests of the country and that both Indian exports and industries would be adversely affected by any higher rate."

The telegram went on further to say:

"We believe that an opportunity which may not recur is offered at the present moment of obtaining general acquiescence even in Bombay in a policy which will give us a permanently higher rate than Is. 4d. gold. We regard it as of great importance, politically, quite apart from financial merits, to take commercial opinion along with us in this matter."

To which the Secretary of State replied by wire, and his reply practically amounted to "Well done, Blackett!" He said:

"I appreciate vigour and skill with which case for postponing this issue has been expounded on numerous occasions by Finance Member despite strong pressure from certain quarters for attempting forthwith permanent solution."

\*He signed the Majority Report recommending Is. 6d.



I am afraid those "certain quarters" were none other than the Indian Chambers of Commerce. All this goes to show that the Government of India had made up their mind long ago that the rate ought to be fixed at 1s. 6d. Therefore, it is not fair now to say that having got a *de facto* ratio we are doing only what we cannot help. I do not wish to take up any more time of this House, although I wanted to touch on a few other points. I can quite see the time for lunch is arrived and therefore we must adjourn. I will therefore conclude my remarks with an appeal to the House. The statement by the Government that 1s. 6d. is not a rate brought about by manipulation is not correct, as can be seen from facts and figures, especially the telegrams which have passed between the Secretary of State and the Government of India; the prices have not adjusted themselves to 1s. 6d. And therefore all of us, at least all the elected Members, ought to oppose the Bill. Whatever happens, whether we win or are defeated, I hope all the Members who realise their duty and responsibility will vote in favour of the amendment moved by my friend Mr. Jamnadas Mehta. (Applause.)

## IV

### DEPRESSION AND MONETARY REFORM\*

Depression is the general cry that one hears today from every quarter. Some attribute it to one cause; others to different other causes. The layman does not trouble about the causes at all. He simply knows that something is wrong somewhere. The consumer as such rejoices because he can get goods so cheap. He was brought up in the tradition that prices had an inherent tendency to rise. And now, to his amazed satisfaction, he suddenly finds this theory rudely shaken. But the agriculturist is wailing. God gave him a bumper crop for which he had always prayed. Yet he is most unhappy. He cannot understand why bumper crops and severe distress should go together. But he finds it so. He cannot pay his land taxes; he cannot repay his loan. The zemindar too is not happy because he cannot collect his land revenue. Even the manufacturer finds himself in the same boat because of the slump in the prices of his goods.

In 1920 the distress had for its victims mainly the labouring and salaried classes. And so there were discontent and strikes. Now the victims are the producers, including agriculturists and manufacturers, who are as discontented now as were the labourers in 1920. The Government in order to prove its innocence must unearth a culprit from somewhere. In 1920 it said

\*Published as a pamphlet in 1931.

"Oh, it is the politician who is responsible for the discontent among the workers." It repeats the same old plea now with the difference that the word "agriculturists" is substituted for the word "workers." But it never explains why in spite of a political unrest of an unprecedented character, we are witnessing to-day greater contentment and happiness among the labourers than ever before.

A table is given below (Table I) showing the retail prices of wheat, lentils, ghee, sugar, mustard seed, and cotton cloth (ordinary quality) as they are to-day and as they were at the time of Akbar the Great. There is another table given (Table II) which compares current wages with those which obtained during Akbar's reign.

TABLE I†

Commodities.	Prices in Akbar's time P			Current prices (Calcutta) P			$\frac{P}{P}$	Average of $\frac{P}{P}$
	Rs. as. p.			Rs. as. p.				
Wheat per md.	0	14	0	3	0	0	3.43	4.25
Lentils " "	1	2	0	4	8	0	4.00	
Ghee " "	7	5	0	64	0	0	8.75	
Brown Sugar " "	3	15	0	8	12	0	2.22	
Mustard seed " "	1	0	0	5	10	0	5.62	
Cloth per yard (Ordinary quality),	0	2	3	0	3	6	1.17	
	to							
	0	4	6					

The unweighted index number of current prices on the basis of Akbar's period representing 100 comes to 425, as is evident from the above table.

†Figures for Akbar's time are taken from Ain-i-Akbari. These figures were first converted into their gold equivalents and then expressed in terms of Indian money at the rate of 13d. to a rupee. Column 3 of Table I gives the ratio that current prices bear to those of Akbar's time, i.e., it shows the rate of increase in the prices. The last column gives the unweighted average of the ratios, i.e., the average increase in the prices of the listed commodities taken together.



TABLE II.†

Kind of labour	Current Money wages A	Money wages in Akbar's time B	B in real wages i.e., in terms of its present purchasing power.
Unskilled urban	10 annas daily.	2 dams daily or 2.6 annas.	11 annas
Carpenters	1½ to 2½ rupees.	3 to 7 dams daily or 3.9 to 9.5 annas.	1 to 2.6 rupees.

It is hoped these tables will prove interesting. Table I shows that, on the average, living for the common people is about four times dearer now than it was in Akbar's time. Table II, on the other hand, shows that money wages are about four times higher to-day than they were in 1600. In other words, the worker in real wages is getting to-day about the same amount as he was getting more than three hundred years ago.‡ If we take the condition of the worker as a criterion, we may logically conclude that the present condition of agriculturists, other producers, consumers, etc., is also much the same as it was in Akbar's time. However, in the course of the last three centuries, owing to frequent social and economic disruptions, there were so many changes in the fixed charges that it can now be said almost with certainty that the condition of these

†Figures for Akbar's time are taken from *Ain-i-Akbari*. These figures were first converted into their gold equivalents and then expressed in terms of Indian money at the rate of 18d. to a rupee. 1 dam is thus equal to 1.5 modern annas.

‡Our conclusion is borne out by Moreland. Making a similar comparison with 1911 prices and wages he says in his "India at the Death of Akbar":—"The general conclusion to which these figures point is that urban real wages in North of India stood at somewhere about the same level in Akbar's time as in 1911 and that there has been no pronounced change in the standard of remuneration of these classes of the population."—pp. 191-191 ed. of 1920.

groups has changed, in some cases for the better and in others for the worse. But even if we suppose that, on the average, the economic condition of these classes has not undergone appreciable change in the three centuries under question, it is undoubtedly a fact that in the course of the latter part of this period there were violent fluctuations in prices, as a result of which each of these classes must have had to live, by turns, through recurring periods of unusual suffering and privation. I say "by turns" because our present economic order is such that as prices go up and down, they affect now the one, now the other section of the community. Whether the suffering of one section contributes to the happiness of the other is very doubtful; but that such ups and downs, whenever they take place, must cause a violent upheaval in society is a certainty.

For a clear understanding as to whom these fluctuations affect and how, we may divide the community into two sections, as follows:—

I	II
Bankers.	Agriculturists.
Security-holders.	Industrialists.
Money-lenders.	Village craftsmen,
Zemindars	such as chamars,
Salaried persons, such as Government ser- vants, clerks, etc.	potters, herds- men and other producers.
Government.	
Railways.	

For the sake of convenience, the first class may be called money-holder and the second commodity-holder. The interest of the one is very largely inter-woven with that of the other. I provide a chart (I) showing the trend of general prices, money wages and real wages. A glance at it shows that roughly in the years from



1880 to 1885 and from 1920 to 1931 it was the commodity-holder and in the years from 1885 to 1920, the money-holder who suffered. Reversely, the years 1880-85 and 1920-1931 were prosperous for the money-holder and the years 1885-1920 for the commodity-holder. And while both classes had a chequered history behind them of depression and boom, their vicissitudes also caused a distinct set-back to the general economic life of the whole community.

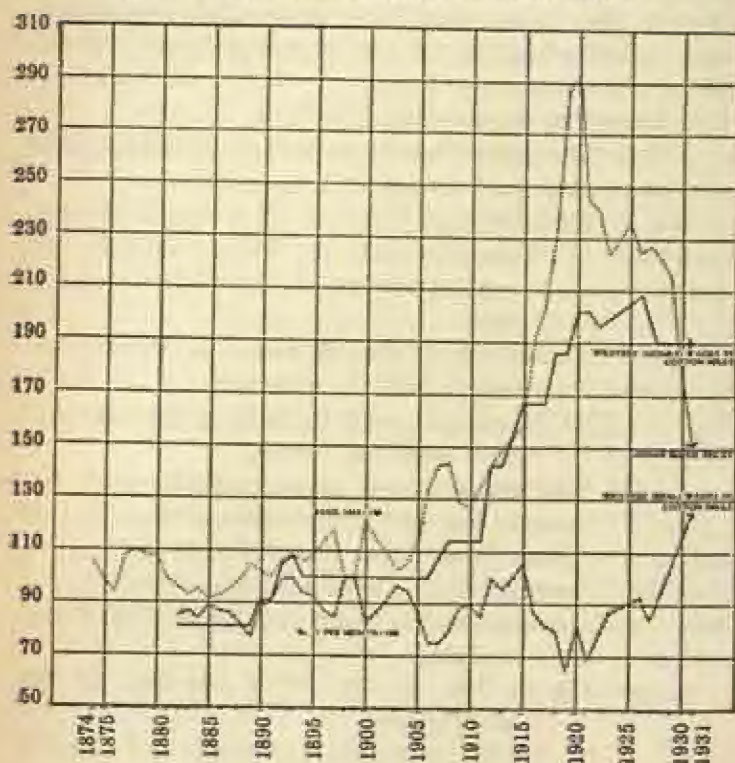
At present the situation is this:—

- (1) The agriculturist cannot sell his products at an economic price; consequently,
  - (i) he cannot purchase his ordinary requirements, such as cloth, kerosene oil, corrugated iron sheets, railway tickets, etc.,
  - (ii) he cannot pay his taxes to the Government or to his zemindar,
  - (iii) he cannot repay his loan to the sahuکار, not even the interest.
- (2) The manufacturer cannot sell his goods because the agriculturists have no money to buy them with. So he has to curtail his production. Consequently,
  - (i) he is unable to pay dividends to his shareholders,
  - (ii) he has to lay off a number of his employees,
  - (ii) he has to reduce the wages and salaries of his employees.
- (3) The resultant contraction in the purchasing power of the agriculturists, shareholders, unemployed labourers, etc., reacts again on the prosperity of the producers and the importer who find themselves in the same



# CHART I

Indian Rupee Prices, Money & Real Wages.



boat as the manufacturer.

This is one side of the picture. Let us look at the other:—

- (1) Labour is about twice as prosperous as it was in 1920, except where there has been a reduction in wages, as in the jute mills.
- (2) The same holds true of people holding interest-bearing securities, such as industrial debentures or Government loan securities.
- (3) The zemindar is affected only to the extent that he cannot collect his rent, but whatever he gets can secure him a larger quantity of goods than before.
- (4) The sahuکار is only slightly worse off in that he cannot recover his full loans, but whatever interest he earns can get him more commodities than before.
- (5) Government servants are about the happiest.
- (6) The income of doctors and lawyers has gone down but with half the income they can now command almost the same quantity of commodities as they could have done with the whole of it in 1920.
- (7) Government with their fixed revenue should have been in a far better position but for the fall in the realisation of taxes. They could have met the trouble by retrenchment. But instead of doing that they have increased taxation and thus caused trouble for the whole community.

This list could be lengthened but it is not necessary to do so. We shall sum up the position thus. The commodity-holder, as we have shown above, is at present in a distressed condition, while the money-holder is rejoicing. The situation was just the reverse in

1920. At that time we used to hear pathetic tales of the suffering of the petty money-holding class. Sometimes we would hear of a middle-class Bengali woman committing suicide because she had no Saree to put on; sometimes of a family in which two or three women would put on the same Saree by turns—the woman going out using it and the rest shutting themselves in a room absolutely naked. Now we hear of cultivators selling their children because they have no money to purchase their daily requirements with. Thus the cycle of torture and devastation has visited by turns both the sections of society, and has left in its trail distress, discontent, ill-will and crime. In view of all this, the inevitable question which society asks itself is: is there any remedy for it at all?

### **Alleged Causes for Depression**

Before attempting an answer, let us first analyse the causes so far suggested for the depression through which we are passing. The following are some of the culprits said to be responsible for the present distress of the commodity-holder:—

- (1) High tariff walls.
- (2) Political disturbances in India, China and elsewhere.
- (3) Over-speculation.
- (4) Increased national expenditure.
- (5) Increased cost of production.
- (6) Low purchasing power of the agriculturist.
- (7) German reparations.
- (8) Over-production.
- (9) Maldistribution of gold.

Some of these very causes, curiously enough, were advanced at one time as responsible for the misery of the money-holder when prices were soaring high. And



what a confusion of thought that while some of the above items are the results rather than the causes of the depression, they are so often trotted out as the factors which have precipitated it. But let us examine them one by one. High tariff walls are no new phenomenon in the civilised world. They existed even when prices were very high. Political disturbances are no more numerous today than they were during the war. Over-speculation always follows wild fluctuations in prices in the same manner as boom follows crisis or vice versa. But people believe that speculation precedes a boom or crisis. This is a misconception. Low purchasing power, increased national expenditure, and increased cost of production, if we take the real expenditure and the real cost, are mere consequences of the present low level of prices. They no more explain the present situation than the statement that a man has ceased to breathe from heart-failure does the cessation of his breathing. Heart-failure is as much a "cause" of the cessation of breathing as increased real cost of production, low purchasing power, etc., are of the low level of prices. German reparations are undoubtedly an important factor and are causing great distress to the German population. But the harm that this has been causing has been only aggravated by the low level of prices. This alone cannot be held to be responsible for the world-wide depression.

To consider over-production as the cause of the distress is, more or less, an economic superstition. The production of every little thing adds to the national wealth and thus to the comforts of the nation. Similarly, under-production adds to its misery. This conception is so ingrained in Man that, from the time of the Vedas, people have been praying to God for abundance of commodities. Besides, one may ask: who produced

this surplus when the number of the unemployed is increasing every year and everywhere? Does any one suggest that the world would have been happier today had there been under-production, failure of crops and so on? Furthermore, why is it that, though since the beginning of this century production had been consistently rising up till 1920, we still had a regular upward trend of prices? During the war the production of certain commodities rose to gigantic proportions, yet the curve of prices, instead of going down, shot up almost perpendicularly. Even such things as diamonds, old books, paintings, etc., which had no use for purposes of the war, became very dear. In India to-day, even those commodities which are under-produced, such as ghee, milk, vegetables, fruits, etc., are sold very cheap in sympathy with other commodities.

The total supply of cloth (Indian mills and handloom production plus imports) during 1930 was 457 crore yards as against 531 crore yards in 1929. The supply was less as compared with 1929, yet 25% of the Bombay mills were idle throughout the year, because even with nearly a 30% fall in the price of cloth and a 14% fall in its supply, sufficient buyers were not forthcoming. Was there any over-production in this case?

Over-production of commodities can never be the cause of human misery; on the contrary, it can only be a source of happiness and comfort. There is no limit to human consumption and, therefore, no production is too large provided it can be secured to the population for consumption. There may be a surfeit of commodities, but for a man who has got no "means" to purchase them, they do not for all practical purposes exist. Such "means" at present are synonymous with gold or its representatives. The agriculturist may have a bum-



per crop, a thing for which he devoutly prays. But, before he can buy his requirements, he must convert his produce into "means". Then only would he be able to pay his taxes to the zemindar and his dues to the sahuکار, for these must be paid not in commodities but in "means" or money, i.e., in gold or its representatives. After having paid his dues, if he has any "means" left with him, he may buy the necessaries of life, such as cloth, tobacco, oil, etc. But, alas, these "means" have at present been made so scarce, so dear, that for the same amount of produce he is unable to get to-day even half as much of them as he would have about two years ago. In other words, it is the dearness of the means, i.e., of money, that explains the present low prices and the misery of the cultivator. Those who possess these "means", namely, money-lenders, bankers, security-holders, labourers (in employment), Government servants, zemindars (provided they are able to collect their rent) are the happiest persons to-day. But little do they realise that it is impossible for one section of the community to thrive at the expense of the other for any length of time. Little do they know that as the revolutions of the merry wheel go on it will soon be their turn to go down and that of the sufferers to go up. And, so they rejoice in ignorance. The other section, too, rejoiced when days were better for them. However, none of these sections is responsible for this iniquity. They are both guiltless in that respect. The guilt really lies with that system which, without any scientific reasons, makes the "means" sometimes cheap and sometimes dear.

### Monetary Maladjustment

Therefore, those who suggest that maladjustment of gold is responsible for the present depression are



not far from the truth. The absolute truth would be to say that it is maladjustment of money that is responsible for it. I am not using the term, maladjustment, in the sense in which it has been used by some prominent experts. Sir Henry Strakosch says that a large accumulation of gold in France and America has caused a stringency of the yellow metal in England to which he attributes the whole present distress. That, for him, is maladjustment. But, I am not using the term in that limited sense. I am using it to indicate that state of affairs in which, due to an unscientific system of currency, gold and its representatives, which are generally in the possession of bankers, money-lenders, etc., become at times so dear, as at present, that they directly begin to hit the producers, or at times so cheap, as in 1920, that they begin to benefit them. Herein lies the maladjustment. In 1920 it was in one direction and now it is in the other. And, as we shall show presently, this maladjustment will continue to operate—at one time in favour of the commodity-holders, at another in favour of the money-holders,—as long as we are at the mercy of gold.

I append a chart (II) which shows the trend of prices and of the total amount of money or the "means" in circulation. It can be seen from this that when the "means" were circulating in abundance, i.e., were made cheap, there was a rise in prices. When they were made scarce, or dear, the prices fell. This was inevitable. As our prices are expressed in terms of gold or its representatives\*, naturally abundance of means, which in other words may be called cheapness of gold, comes to raise prices and the scarcity of means to lower them. Therefore, as long as gold is the master, it is bound at times to favour and at times to punish the

\*Before 1393 they were expressed in terms of silver.

two sections of the community, viz., the money-holder and the commodity-holder. And so long as this system continues, iniquity, discontent, etc., must also continue as a matter of course. The responsibility for our distress thus belongs to gold and those who have enthroned it and made it the sole vehicle of commerce.

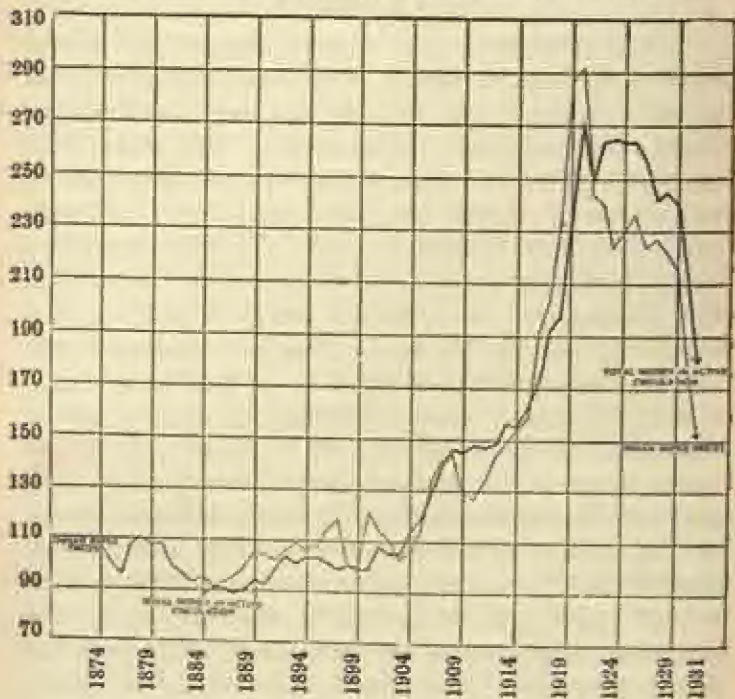
### Gold Liabilities

There is another kind of maladjustment of means peculiar to modern times. This maladjustment is as between race and race and between nation and nation. Under extraordinary circumstances one nation has happened to acquire a supremacy over another nation, as a result of which the latter has to pay so much "means" to the former by way of debt redemption. The typical cases are those of America vis-a-vis Europe and China, etc., of England and France vis-a-vis Germany, Austria etc.; and of England vis-a-vis India. The creditor countries insist on being paid in gold, but as they themselves have, by locking up a good portion of the world's resources of gold in their vaults, made it scarce, the debtor countries are unable to meet their demand. The latter therefore try to pay in commodities, but the creditor countries refuse to accept them as they themselves are manufacturers of commodities as well as their exporters. Consequently, a tussle for the sale of commodities begins between the creditor and the debtor countries. The result is lower prices which means an increased burden on the debtor country and consequent starvation of its inhabitants. We need not dilate here upon the resulting inefficiency, loss of purchasing power and the ultimate repercussion of such starvation of the debtor country on the creditor. All these are obvious enough. The present situation could very well be compared with an unhealthy excrescence

## CHART II

Indian Rupee Prices, 1898=100.

Total Money in Active Circulation, 1898 (170 crores)=100.





on a part of the body which must ultimately react on the whole. In support of this it may be pointed out that the present situation would not have become so acute if debts would have been incurred in commodities rather than in gold.

It is curious how gold and in some countries silver came to achieve their privileged position. What are gold and silver after all? They are as much metal as iron, lead, etc. Perhaps from the point of view of real utility they are of much less importance than iron, steel, brass, copper, aluminium, etc. If the world had to choose between gold and iron on merits alone, it would undoubtedly choose iron. The value of gold came to be attached to it chiefly on account of its scarcity. But this is a point more in favour of its being used as a luxury than as a standard of measurement. As a means of measurement alone, as a yard-stick, so to say, it would not survive for a single day. There is no dearth of yard-sticks in the market. One can get plenty of them at cheap, dear or moderate prices according to the labour which may have been used in preparing them. But the possession of any of these "yard-sticks" would not enable anyone to exchange it for, say, a yard of cloth or a pound of corn. But the man who has gold would most normally and automatically find himself in the position of being able to command a certain amount of commodities; not because gold has any fixed intrinsic value as a commodity (the value of gold is simply fixed in gold) but because the State by law compels one to accept it as a measure of value. Gold is thus not serving the purpose of a measuring-rod in the same way as is a yard-stick. It has exceeded its legitimate limits. Every nation is hankering after it because it has the miraculous power of putting one in possession of commodities. Nations which are losing

gold are wailing over their loss. And strangely enough, they are also wailing not over the loss, but over the abundance of the crops that God gave them. They evidently prefer gold to commodities whereas their choice should have been quite the reverse.

### **The Real Remedy**

There can be no doubt that a universal disease requires a universal remedy. But at the same time it is certain that even a local treatment will bring at least partial relief. Therefore even if it not be possible to apply the remedies suggested here internationally, they may at least be tried on a national scale. We would therefore now deal with the remedies from the point of view of their applicability to Indian conditions.

There are three alternative ways:

Either

- (1) To pick the pockets of those, who are at present picking the pockets of others, viz., the money-holders. This could be done by—
  - (i) reduction of debts through repudiation or capital levy or any other special tax on capital;
  - (ii) an all-round reduction in wages and salaries;
  - (iii) reduction in taxation;
  - (iv) reduction in Zemindar's land-revenue;
  - (v) reduction of interest rates;
  - (vi) reduction of railway freight, fares, etc.

Or

- (2) To curtail production by very nearly 50% and thus cause scarcity of commodities,

Or

- (3) To reform the present monetary system and thus stabilise prices at an equitable level.



Let us begin with the first alternative. We could undoubtedly establish a temporary equilibrium by reducing all our fixed charges, such as rent, revenue, tax, interest on debts, railway fares, etc., in the same proportion as the fall in prices. The fall, thus, for all practical purposes, would become ineffectual. But it is not so easy to do all this. Why should the money-holders agree to such a proposition? Although as a class they too suffer in such crises, because they cannot realise a lot of their dues, yet as individuals they can never agree to make such a voluntary sacrifice. Besides, they can very well ask why they should be called upon to make a sacrifice now when no one made a voluntary contribution to relieve their distress in the period of high prices. They may also ask what guarantee there is that in future periods of rising prices their charges would be voluntarily increased by the commodity-holders in proportion to the rise in commodity prices. Therefore, though it is possible to a certain extent to put the first alternative into practice, it is not possible to adopt it in toto. Consequently, this remedy cannot give full relief.

To take the second alternative, viz., the curtailment of production. This is a most suicidal policy, and yet every manufacturer in his immediate self-interest has perforce to adopt it. A man would laugh if he were asked to burn down half of his factory or his standing crops because there were not enough measuring scales to measure his production with. Such a suggestion would rightly be taken as a lunatic proposition. And yet this is exactly what the producers are doing at present. As there are not sufficient measuring scales, in other words, "money", they must in self-protection curtail their output. A man must live. There are records of time when men had to choose between death



by starvation and cannibalism. At present the commodity-holders have to choose between self-extinction and adoption of a policy most harmful for the prosperity of the people. Naturally, they choose the latter. The State which is responsible for the present privileged position of gold could and should intervene. But it would not. It is thus extending an invitation to famine, praying to God for destruction of crops! Little is it realised now that even the object of the curtailment of production may be defeated if the quantity of money was further reduced in proportion to the effected shrinkage in the supply of commodities.

The second alternative, therefore, though it will be universally and reluctantly adopted by producers and commodity-holders throughout the world, is equally bad and destined in the end to promote famine, distress, discontent and strife.

The third alternative and the real remedy is to reform the monetary system. To put it more clearly, what is required is the stabilisation of the buying power of money at an equitable level. The cyclic fluctuation in the value of money which sometimes hits one section and sometimes the other section of society should be narrowed down to the utmost extent. **This remedy will mean a fluctuating exchange but a stable price-level.**

### **Fluctuating Exchange**

There are men who will raise their hands in horror at the very mention of a proposal which contemplates a fluctuating exchange. This is very natural. We have been taught too much of the advantages of the so-called stabilised exchange. But is it stabilised at all? Our rupee today is stabilised at 8.475 grains of gold,—a metal which is only one and the least useful of hundreds of other useful commodities and the value of which in

terms of commodities continues to have wild fluctuations as shown in Chart II. Moreover, the question arises: whom does such stabilisation benefit? Only those who are interested in foreign trade or those who come to trade here from foreign countries. The annual value of the total inland trade is estimated roughly at about 9,000 crores of rupees against 600 crores of foreign trade. Yet it is ridiculous that for the benefit of only one-sixteenth of the total trade our rupee should be expressed in terms of gold and not in terms of commodities. The man who deals in foreign trade has to calculate his price parity on the basis of insurance, freight, and the rate of exchange. The cost of goods generally fluctuates from day to day whereas the other items are more or less fixed. If exchange also fluctuates along with the price of the commodity in which an importer or exporter is dealing it will require the dealer to take some risk which no trader ever likes to take. He therefore naturally prefers a fixed exchange. Again, the foreign merchant trading here possesses an amount of capital which he always likes to count in pounds, shillings and pence, as his ultimate ambition is to retire from the country. The same could be said of the foreign civilian who has to remit money home every month. In view of this, all those who are interested in foreign trade or in remitting money to foreign countries or think of ultimately retiring to foreign countries with their wealth prefer a fixed exchange. But is there any sense in fixing the gold value of the rupee, simply because it happens to suit those who are not interested in internal trade or do not belong to this country? The volume of the internal trade and the interests of the nationals are of too great importance to permit of any preferential treatment being given to foreign trade and the foreign merchant. It is essential therefore that the



value of the rupee should be fixed first and foremost with a view to suit Indian interests. It has been shown how a fluctuating value of the rupee tends to lead to discontent and strife, unsteadiness in trade, uncertainty of the position of the labourer, the agriculturist, the middle class and the salaried class, etc., and therefore it is essential that to save society from these social and economic upheavals the value of the rupee should be fixed in terms of commodities.

It is not my purpose here to describe the method which should be adopted to maintain the purchasing power of money. Eminent experts have discussed this question at length and have suggested different methods based, however, on one uniform principle, namely, the regulation of the outflow and inflow of money into and from circulation in order to maintain a steady supply commensurate with the requirements of the public. The past history of Indian exchange proves how a fluctuating exchange has helped to minimise price fluctuations even though this was not really intended. Chart (III) will show the trend of Indian prices compared with that of U. K. gold prices as well as the trend of our exchange and the total money in active circulation. It will be seen from this chart that except in periods when exchange was stabilised our prices have not moved with the U. K. prices and that during the period of fluctuating exchange the ups and downs in U. K. prices have been absorbed by the ups and downs in our rupee exchange and thus we had narrower fluctuations in Indian prices. This, however, happened only accidentally because the intention of the authorities in India was never to stabilise prices but to manipulate exchange for ulterior purposes. Had there been a definite policy of stabilisation of prices and a sincere desire behind the same to work it, the whole history of



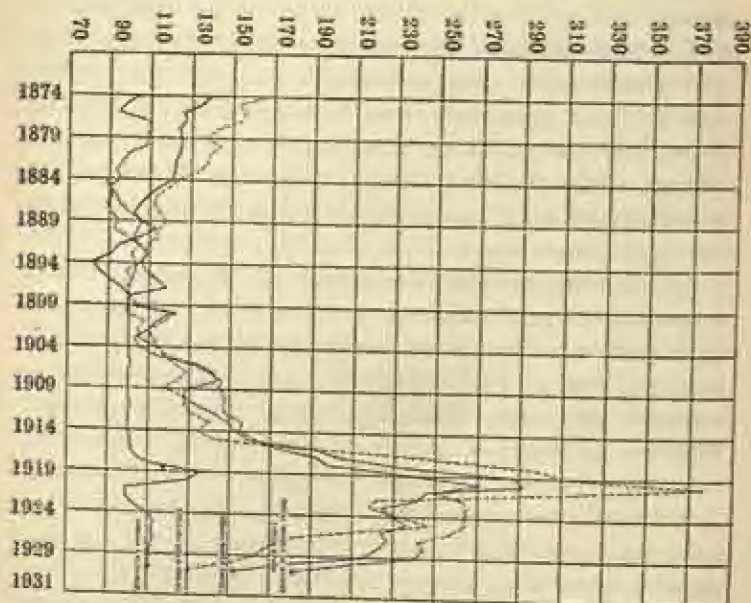
the currency and exchange administration of India would have been different, for had we pursued such a policy Indian finance to-day would not have been in such a precarious condition. I need not write in detail about our financial transactions of the War and post-War periods, but it is clear to every student of history that during the War period we exported a very large quantity of commodities and also rendered services to England for which India paid. Even allowing for invisible imports it should have been possible for us during this period to make a substantial addition to our gold resources. At that time if we had our way, we would have sold our goods only on our terms, namely, that payments must be made either in gold or in reliable securities or in such commodities as we required. But what did actually happen? Between 1914 and 1919 we could not make any important addition to our gold reserves, and our sterling securities in the Paper Currency Reserve rose only by 78.5 crores. Even this scanty acquisition we were not able to maintain. Our gold resources were sacrificed at the altar of the 2s. ratio, just as they are being sacrificed now to maintain the 1/6d. ratio. Probably history is repeating itself. Had we pursued a policy of price stabilisation, our exchange during the period of rising prices would undoubtedly have appreciated. But this would in no way have made any difference to our legitimate gold acquisition. And, when prices would have receded again, as they did after the War, our exchange would have slowly sunk back probably to its original level. This would have kept our gold acquisitions intact, saved India from a wild fluctuation of prices, from profiteering and from other social evils.

### CHART III

Indian Rupee Prices and Total Money in Active Circulation  
as in Chart II.

English Gold Prices, 1898=100.

Indian Exchange, 1898 (about 16d.)=100.



### Stable Price Level

There is always one disadvantage of a rising exchange, and that is that indigenous industries are handicapped in their competition with foreign imports because, owing to the rise in the level of world prices, there is a virtual reduction in wages in other countries, while the country with a stable price level does not enjoy such an advantage. A national Government could very easily correct such a position by adequately raising its tariff against imports. But, as I have stated above, the artificial appreciation of the exchange, first to 2s., then again to 1½s., was neither for the stabilisation of prices, nor in the best interests of India. It was for the benefit of the British manufacturers, British investors and the British element in the I. C. S., as it has proved to be. However, it is clear that with a more scientific method it should have been possible to stabilise prices.

The basic idea behind stabilisation, namely, to save society from the distress of economic cycles is not new to India. It was recognised throughout the whole of the old world, and particularly in ancient India, as most of the fixed charges at one time used to be expressed in terms of commodities. We find evidences which show that in ancient India, land revenue, octrois, wages, interest, loans, etc., were fixed in terms of commodities. This means that all long-term contracts used to be made in terms of commodities. What is required now is to give this old crude system a scientific shape by still keeping money as the intermediary but by fixing its value in terms of commodities. Some may pooh-pooh this idea, but what they call a gold standard has in no country stood a bad weather, while it could surely be said about the old system of making long contracts in terms of commodities that it stood all weathers, fair



and foul, and for centuries together. In India the whole history of the present system is confined to about 30 years and within this period it has broken down twice and threatens to do so again. A system which could have drifted aimlessly for as many as 10 out of 33 years' existence cannot lay any claims to perfection.

I maintain, therefore, that there is no novelty in the principle of tying money to commodities, for in a simpler form it has been tried in this country for hundreds of years. A system, which discourages speculation and which helps to maintain a steady production of commodities, unlike the gold standard which causes as wild fluctuations in production as in the price-level, is undoubtedly one that must commend itself strongly to one's common sense.

India is specially suited for such an experiment. The 1/6d. ratio is very unpopular. It cannot be maintained and it must go. But, before a new ratio is decided upon, an attempt should be made to stabilise prices after choosing an equitable level. After all, the change from 1/6d. to 1/4d. cannot be wrought overnight. It requires time for the exchange to settle down to a new ratio, particularly in view of the recent serious fall in prices. It may, therefore, be found quite convenient to try stabilisation of prices first.

### Link with Commodities

To summarise. The question raised above was: Is there any remedy for our economic ills? We put forward three alternatives. We have rejected two and accepted the third, viz., that our rupee should be linked not with gold but with commodities. The false "king", viz., gold, should be dethroned; the real "king", viz., commodities, should be installed in its place. A yard of carpet is always equal to a yard of cloth. But, a

certain quantity of commodities, which is to-day worth 1 oz. of gold, may not be worth that even the day after. I admit that it is impossible to secure a perfect standard of value. But, I maintain that we can certainly find a better standard than gold. Even bimetallism is better than the gold standard because we rely on two metals instead of one. But, why rely on metals, which are of less use to humanity than many other commodities? Why not rely on commodities, which are of greater use to us? It is better to link our rupee to one hundred useful articles than to only one and that also an utterly useless one. We have to choose between, on the one hand; wildly fluctuating prices, speculation in commodities of daily use, injustice sometimes to one and sometimes to the other section of the community, uncertainty, distrust, strikes, civil wars; and, on the other, stability of prices, stability of wages, stability of the general levy of taxation, stability in the relation between creditors and debtors, peace and contentment. The stability of exchange gives the former, the stability of prices the latter.

But shall we realize this in time?

## GOLD TO STERLING—I\*

[The second Round Table Conference was held in London from September to November, 1931. Soon after the session began, England was forced off the gold standard—on September 21st, to be exact. In the Legislative Assembly then in session at Simla, Sir George Schuster as Finance Member announced the suspension of the Government of India's statutory obligation to sell either sterling or gold against rupees—which could only mean that the rupee would be left free to take its own course. But Whitehall willed otherwise and at a meeting of the Federal Structure Committee in London, Sir Samuel Hoare, the then Secretary of State, announced that it had been decided to keep the rupee linked to sterling. Against this decision Indian public opinion protested. Mr. Birla was at the time in London where he had gone to attend the Round Table Conference as a representative of the Federation of Indian Chambers of Commerce and Industry. What follows is the light thrown by him on the subject, first in the course of a letter written by him to the *Manchester Guardian* and then during a discussion arranged at the India Office by the Secretary of State which was initiated by Sir Henry Strakosch, acting as the official spokesman. On October 6, when the discussion was resumed, Mr. Birla replied, explaining why it would have been in India's interest to have left the rupee alone and not linked it to sterling.]

In 1927, in the teeth of popular opposition, the Government "plus-valued" the rupee from 1s. 4d. to 1s. 6d. (gold) when other countries had either devalued their money or come back to their original

\*A letter dated London, 29th September, 1931, addressed by Mr. Birla to the "*Manchester Guardian*".



parities. The legislation was passed by a narrow majority of three, and of the sixty-eight votes cast in its favour a large majority was those of either officials or nominated non-officials and Europeans.

Public opinion was as uncompromisingly opposed to the new ratio after its fixation as it had been before. Warnings which were repeatedly given turned out to be true. The fall in the prices of articles which India exports has been much more serious than that in the prices of articles which she imports—in natural consequence of an appreciated ratio. While the fall in the case of imported articles between September, 1929, and December, 1930, was 16 per cent. that in the case of exportable commodities was no less than 36 per cent. This so much affected the purchasing power of the agriculturists that eventually imports came to be as unsaleable as exports. Deficit budgets became the rule rather than the exception. Gold resources were frittered away. Debts have continued to pile up. The total interest-bearing obligations of the Government of India, whether in rupee or in sterling, have stood as follows:—

March 31, 1924	...	...	919,00 crores.
March 31, 1927	...	...	1,006,19 crores.
March 31, 1931	...	...	1,171,96 crores.

Thus a new debt of about 252 crores of rupees has been contracted during the last seven years, and the rate which has been paid for three months' accommodation has been anything from 1 per cent. to 2 per cent. higher than the rate at which banks have been able to obtain deposit for a like period. No wonder that at times when money has been available in other financial centres at 2 per cent. or  $1\frac{1}{2}$  per cent. the Bank rates in Calcutta and Bombay have been as high as 7 per cent. or even 8 per cent. The net contraction

of currency from April 1, 1926, to date has amounted to about 125 crores. Trade has suffered and so has industry. The Indian agriculturist finds himself at present unable to meet his liabilities. He is not in a position today to pay either the land revenue or the interest on the money he has borrowed. No doubt the world depression is partly to blame but it is the appreciated rupee which has precipitated a crisis in his case.

Indian merchants have spoken, at times appealingly, at times with bitterness, against the currency policy of the Government, but on every occasion what they have been given was a sermon on the advantages of the stability of exchange. In registering their protests they have had to put up with a good deal of libellous misrepresentation, for they have been described as men who had remitted their money out of India and were pressing for a lower exchange from selfish motives. It was dishonest but nothing unusual for those at the helm of Indian affairs to indulge in and abet propaganda of this kind against their opponents.

### England's Example

England's malady has been similar to India's but not half as serious, and what has she done? Retrenched and suspended the gold standard; tariffs, of course, being still to come. When Great Britain chose, and chose rightly, to suspend the gold standard we might have expected, even at this late hour, similar action in India and those who heard the Finance Member's statement that "the Government of India had decided to issue an ordinance giving effect to the decision to suspend the statutory obligation to sell sterling or gold against rupees" must have heaved a sigh of relief



until the Secretary of State came out with quite a different statement in the Federal Structure Committee. "To follow gold," Sir Samuel Hoare said, "and so to increase the sterling value of the rupee at this juncture is, I am sure you will agree, out of the question. It has, therefore, been decided to maintain the present currency on a sterling basis. I am satisfied that this is the right course for India, and is the most conducive to Indian interest. The Government of India will accordingly continue the policy under which stability in the terms of sterling has been secured in the past."

The two statements are not the same, as while the former suspends all standard, the Secretary of State adopts a new standard which is neither of gold nor of silver nor of commodities, but of a sinking sterling.

The effect of this policy may be disastrous in many ways. For one thing, the rupee, even if depreciated to the extent of 50 per cent in terms of gold, must remain at 1s. 6d. in terms of sterling, even if sterling does not depreciate more than, say, 20 per cent. It can so happen because the British Government has already taken steps to see that capital is not exported out of Great Britain, and it is impossible not to suspect that this move is designed to help the British investor to bring his money back from India at 1s. 6d. when suspending the exchange standard entirely would have depreciated the rupee, not only in terms of gold, though to a greater extent, but also in terms of sterling.

Again, assuming for the sake of argument that the rupee is in a better position than sterling, and that there is a tendency for British capital to go out to India, what would then be the function of the Government of India in order to maintain the rupee



at 1s. 6d.? The Government will have to buy sterling at 1s. 6d. freely when it no longer represents gold. All the rupees issued in India in this manner will have no other backing than sterling.

Such is the position to-day, at a time when the Round Table Conference is sitting to make India an equal partner in the British Commonwealth. Will the British public take note of it?

### GOLD TO STERLING—II\*

The Rt. Hon. Sir Samuel Hoare, Secretary of State for India, was to have taken the chair, but having received an urgent summons from the Cabinet, he just made some preliminary remarks and asking Sir Reginald Mant to take the Chair, left the meeting.

The Chairman: I understand there was a fairly long discussion at the last meeting, and perhaps Mr. Birla would like to open this discussion to-day.

Mr. G. D. Birla: I think it would be better if we were first to know the case of the Government, as to how they think it is advantageous to India to link the rupee to sterling at the rate of 1/6d. Then, if we have any difficulties we can put them to Sir Henry Strakosch. I should like to be satisfied as to whether the action taken by the Government is the right action. If we find after that that we still have to say something, we might do.

The Chairman: I was not at the last meeting, but I understand that Sir Henry Strakosch did explain that last time.

Mr. A. Iyengar: Many of us were not there on the past occasion. I was present and I say at once that it

\*From the reports of Proceedings at meetings at the India Office for the discussion of Financial Questions: October 8 & 10, 1931.

would conduce to the clarity of understanding if we could now have succinctly the steps the Government have taken. Since our last meeting fresh action has been taken. If we could have a connected account of what was done in the first place, what has been done since, and if we can be told what the present position is in regard to the maintenance of the currency of our country, and the justification for the several steps that were taken, then I think it would be possible for us after that to put questions.

Mr. Birla: May I add that I entirely agree with what Mr. Iyengar has said but I have further difficulties. I was not present at the last Conference and I have no knowledge of what was then said on behalf of the Government; neither was Sir Purshotamdas Thakurdas present. We should like to know the Government's justification for taking this action.

The Chairman: I only wanted to save the time of the members who had heard it before; but as a good many were not present last time, perhaps Sir Henry would give a brief statement of the position.

### Government's Justification

Sir Henry Strakosch: I will just briefly sketch the considerations that I presented to the meeting on the last occasion, which have led the Government of India to choose the path they have chosen, namely, to link the rupee to sterling.

India had the choice, broadly speaking, of three courses, to link its currency to gold, or to link it to sterling, or to allow the currency to "find its own level", as many people describe it.

Now, linking the currency to gold presents exactly the same difficulties as it presented to Great Britain. The fall in the general level of prices which has taken place since 1929 has so increased the burden of all



debts that this country—I can say in common with many other countries—reached the stage at which that burden of debt has become intolerable. On top of that, this country has had to face wholly exceptional circumstances, which were brought about by Germany.

Altogether I think Germany owed on short term account something like £370,000,000 sterling, not to this country but to the world at large. London, being still the monetary centre of the world, felt the repercussion immediately, and for very good reason; because when short term balances become locked up the creditors find themselves under the necessity of at once liquifying, wherever best they can, resources in order to meet their own liabilities, so as to remain solvent.

The result of that was that all those nations that were keeping short term balances in London withdrew those balances, while this country, on the other hand, owing to the impairment of credit of its debtors, was unable to collect the funds in order to meet those liabilities. It therefore fell very heavily on the London market.

In order just briefly to indicate how gravely the fall in prices has reacted on all debtors I need merely say this, that it takes  $2\frac{1}{2}$  times the amount of cotton to discharge a debt in September 1931 as compared with June 1929. That gives you an illustration of how heavily the fall in prices is reacting on debtor nations. I should also add that the fall of prices has a natural reaction on all budgets, not merely of the debtor countries but also of the creditor countries, including those who have accumulated vast amounts of gold. It is estimated that the United States of America, for instance, will in the current year have a budgetary deficit of something like £250,000,000 sterling, and



France one of roughly £65,000,000 sterling.

In all these circumstances, India is no more able to stand the strain of this fall of prices than Great Britain, and therefore it was perfectly plain that India could not maintain the gold standard at any price.

We have the choice then either of hitching the rupee to sterling or letting the rupee find its own level. I will first deal with the latter proposition, because if you are satisfied that to allow the rupee to find its own level is not a practical policy then you are inevitably driven to the solution that the only thing to do was to hitch the rupee to sterling.

What does it mean when we say "let the rupee find its own level". I suppose what is meant is that the currency authorities in India should take no measure whatsoever to interfere; that is to say that they would cease to sell Reverse Councils or to buy Councils, and the currency would be allowed to drift.

Mr. Birla: May I interrupt for a moment? When we say "allow the rupee to find its own level", we do not mean to say the currency authorities should take absolutely no action. What we mean to say is that they should undertake no liability, except that of issuing currency, when it is required by the public against supplies of gold. I hope I have made myself clear. We do not want to be under any statutory obligation to supply sterling or to purchase sterling, but we should like the Government to issue currency against gold if that is necessary for commercial requirements.

Sir Henry Strakosch: You mean, if gold were tendered to the Government they should be prepared to issue currency?

Mr. Birla: At the prevailing rate.

Sir Henry Strakosch: Well, I very much doubt whether any gold would be tendered to the Government.

Mr. Birla: May I again interrupt, if you will excuse me?

Sir Henry Strakosch: Would not it be better if I gave my reasons and then we can discuss it afterwards? As I conceived it, the idea was—I may have to modify that—that for practical purposes the currency would be allowed to find its own level.

Well, it is inevitable in my view, that in these circumstances there would be a wholesale flight from the rupee. No one will know what the rupee is worth, and the mere fact that there is no deliberate policy to maintain the rupee stable at any point or in connection with any other currency is bound to lead to a sale of rupees.

In these circumstances, it is difficult to see how the gold value of the rupee could in any way be influenced. I should imagine that in these circumstances the rupee would eventually fall to the silver value of the currency.

### Britain Creditor Country

It may be asked "Why, if Great Britain is content to tie its currency to no fixed standard, should India not follow a similar line"? The answer is very simple. Great Britain is a creditor country on an enormous scale. The "Economist" newspaper, not very long ago, estimated the total foreign investments of Great Britain at something like £3,400,000,000 sterling. Great Britain has hardly any foreign debt. Steps are being taken to bring the budget into balance, and steps are being taken to restore a balance in the international payments of Great Britain. The danger of monetary inflation is therefore removed, and her present great difficulty is, as I have explained, due to a breakdown of credit—a world-wide breakdown of credit.



India's position, on the other hand, is that she has no substantial foreign assets. She is a debtor country with very large obligations in sterling, governmental and private, and India, moreover has been accustomed for a great many years to rely on foreign borrowings.

Now, it makes a world of difference whether a country is in a creditor or a debtor position.

I want to remind you, further of the fact that the foreign trade of India is to the tune of roughly speaking 45 per cent. with the British Empire, that her foreign public debt, expressed in sterling amounts to £517,000,000, that her annual expenditure in Great Britain is about £35,000,000 sterling and that she has something in the neighbourhood of £67,000,000 of public debt maturing in the next seven years.

### India's Foreign Trade

I think there is a passage in Mr. Birla's very interesting pamphlet\*—or I may have seen it somewhere else—which argues, that India's foreign trade being relatively very small in relation to her total trade, she is not very much interested whether her currency is an international currency or purely a domestic currency. I should like to comment on that by saying this. It is not merely the international commercial trade balance that counts; as I have pointed out, India's financial relations with foreign countries are very intimate and very substantial. India's prosperity very largely depends upon a steady stream of loan funds finding their way into India. I do not say it is absolutely necessary. If the Indian saver were to save not in precious metal but in economic values the need for India to borrow would not be great but the fact remains that India's saving population prefers

\*The Depression & Monetary Reform.



to invest its savings in precious metals.

Now India's foreign trade, according to Mr. Birla's figures, represents something like 7 per cent. of her total trade. I should like to point out that the percentage of foreign trade in the United States of America is something below that figure, something of the order of 5 per cent., and America is a creditor country on a very large scale; yet America finds it to her advantage to be a member of an international currency system.

I should now like to deal with the question by means of question and answer, because I think that will elucidate opinion better than anything else. Mr. Birla, in his most interesting statement—with the first part of which I wholly agree—sets out very clearly the economic consequences of changes in the value of money, and he finally comes to the conclusion that it is far more desirable to hitch one's currency to commodities, with a view to maintaining the level of commodity prices stable in terms of that money, than to entrust one's fortunes to a standard which might become unstable.

You may all remember that that proposition, for what was termed a "managed currency", was strongly debated somewhere around 1922 and 1923, yet the world decided that it was best to hitch currencies to gold.

But let us examine for a moment the practical aspect of a managed currency for India, and let us visualise how such a managed currency would have worked since the year 1929. If you could prove that such a system would have answered India's purpose, it would be the acid test whether a managed currency, designed to keep internal prices stable, is the proper system.

### Price Level and Exchange

If you will permit me, I should like to ask you a number of questions. As I say, I understand your proposition to be that India would endeavour to maintain her internal price level stable and allow the exchange to fluctuate in accordance with the development of world prices.

Mr. Birla: May I just explain, Sir Henry? That pamphlet was written by me two or three months ago. The views given there are my own personal views. It was not written from the point of view of the immediate situation which has arisen. Those of us who are at present on common ground and who oppose the Government's action in linking the rupee to sterling do not necessarily agree with my suggestion that stability of price is a better thing than stability of exchange. In India, probably, I am alone in holding that opinion. Of course, I am in good company, but that is more or less a question of mere academic interest, controversy over which can do us no good today. What we suggest at present is not that India should at once adopt a scheme for ensuring stability of prices, but that the exchange should be left alone to find its own level, and we want to know why it was thought by the Government to be more advantageous to India to adopt the course which they have adopted. I can see the argument which you have put forward in favour of the action by the Government. Perhaps we might put questions to you to elicit further information on that point?

Sir Henry Strackosch: Before you do that, may I say this? Obviously it would be a far better plan to aim at stabilising internal prices in India than to allow the rupee to roam. Surely allowing the rupee to find its own level negatives both things? It nega-



tives stability of price level and it negatives stability of the exchanges. You can only achieve stability of the exchanges if you link your currency to a standard commonly adopted by other countries. I very humbly submit, therefore, that the idea of allowing the rupee to find its own level is probably the worst course that India could take, because India's currency would be drifting in an uncharted sea, utterly uncontrolled, which I believe no one will deny is bound to end in depreciating the rupee to the silver value of the rupee.

I should therefore like to examine a better method, namely, to try at any rate, to maintain the rupee stable for internal purposes. Let us see what the effect of that is. If that is admitted—that that is a better course than allowing the rupee to drift—let us see what would have happened if India had adopted that course.

Now, as I said, before, the level of gold prices since 1929 has fallen by 37 per cent. To maintain prices stable in India, what would have been the effect of that fall of prices on the rupee exchange? What would have been the effect?

Mr. Birla: In order to prevent prices going down?

Sir Henry Strakosch: Yes. Assume prices in India remained stable and world prices fell by 37 per cent.

Mr. Birla: To what level?

Sir Henry Strakosch: How would that have expressed itself in the gold value of the rupee? Your proposition is: prices stable, and exchange fluctuating. What would have been the consequence of that?

Mr. Birla: The question is this: if I am to stabilize prices, what action have I to take in order to achieve that? Suppose I decided to stabilize prices at the 1928 or 1929 level, the question is what action



would I take?

Well, in my opinion the answer is very simple. I would have to manipulate the exchange. If I decided to stabilize prices today at 100 index number and next month prices went up to 105. I would appreciate my exchange in order to bring down the price and thus absorb the shocks of fluctuations. If, on the other hand, prices go down to 95, I would alter my exchange to the same extent, and then I would correct the exchange every month to stabilize prices.

I want to emphasise, however, that this is my personal opinion and not what the Indian mercantile community suggests now. That pamphlet, as I said, was written long before this action was taken by the Government, and what I suggested was that if we ever had a fluctuating exchange India must adopt this course. I think we can adopt that course, but then you would have to decide at what level to stabilise your prices. To-day prices are very low, and you do not want to stabilise your prices at this level. I think some other level would have to be chosen. It may be that an index figure of 150 would be better. That is my opinion.

Sir Henry Strakosch: I think most people will agree that if prices had remained, let us say, at the 1929 level this present catastrophe would not have happened; there would not have been this extraordinary increase in the burden of debt. It would therefore be desirable, no doubt, for countries to revert to the 1929 level if they could. But do not think me stubborn if I continue on that line, because to me it is inconceivable to allow the rupee to float, because if you do so, your rupee is bound to go down to its silver value.

Mr. Birla: Let us not confuse these two proposals.

If we are to discuss whether stability of price is better than stability of exchange I think we can go on discussing that; but that would not solve our present problem, because at present what we most strongly resent is being linked to sterling. What is the advantage we are going to get? If you will allow me, I can put forward difficulties which you are going to encounter in maintaining the rupee at this level.

Coming again, however, to the question of stabilising the value of commodities I would say you must drop your exchange if you are going to come to an index figure of 150, which you agree would be a better figure than the present one. If you look into the effect of this depreciation of the rupee on Indian prices, you will find there has hardly been any appreciable effect. There seems to have been a rise of 1 or 2 per cent. in the general level of prices; certainly, not more than 3 per cent. If we are on common ground in saying that stability of prices is to be preferred to stability of exchange, even then I say you must drop your rupee in order to come up to the higher level. I do not see any harm to India if the rupee goes lower and thus puts up commodity prices, because that will be all to the good.

There are one or two points which you mentioned which I think are in my favour. You said India is a debtor country. I entirely agree.

Sir Henry Strakosch: I am afraid I have not quite followed. Supposing the decision to link the rupee to sterling were otherwise right, you would not consider it right because you prefer the rupee to be depreciated in terms of sterling. Instead of the rupee being stabilised at 1/6d. sterling, you would prefer to see it stabilised at, say 1/-s?



### Objections to Sterling

Mr. Birla: I would rather put it that I would like to see the rupee in terms of gold going below 1|-s. if you want me to put it that way. Even if I said I would like the rupee to be linked to 1|-s. sterling it would have the same objection, because I do not want to link it with sterling at all; there is no necessity. Either I should link it with commodities or eventually with gold, but certainly not sterling, because there are so many difficulties.

Mr. Iyengar: That is the point. At present the position is we would prefer to link it with gold.

Mr. Birla: Now you cannot link it with gold, because as Sir Henry said, there is no gold. I entirely agree; it was impossible, of course. There is a history behind this and I can say it was impossible to maintain it, but I do not want to go into that today. I say, however, that it is equally impossible—or at least most disadvantageous to India—to link the rupee with sterling, because if there is no gold left in our reserves, there is no sterling either left in our paper currency reserve; and to maintain the rupee at 1/6d. sterling you would have to sell your silver at a very cheap price. It is not very easy, moreover, to sell silver when the whole world is out to sell it, but you would have to do that or you would have to borrow money in England, and thus increase our foreign liabilities further.

I am on common ground with you when you say India is a debtor country. I agree it is a debtor country, and therefore it is necessary for us to try to increase not only our productivity, but our exports; and if we are to give an impetus to our productivity and our exports it is essential that we should put up the price by lowering the exchange, because that is



the only way to meet our liabilities. I see no advantage, therefore, in linking the rupee with sterling.

I can mention the disadvantages at some length, if you like, and then we can discuss it.

Sir Henry Strakosch: The disadvantages of linking with sterling?

Mr. Birla: Yes.

Sir Henry Strakosch: Do you mind if I first of all reply to your proposition that India should link her currency to gold at 1½-s?

Mr. Birla: Yes. May I also submit, Mr. Chairman, that it may appear that I have been monopolising the whole conversation, and others may have something to say.

The Chairman: I think we want to take one point at a time.

Mr. Birla: I would certainly like to pursue this point further.

Mr. Jinnah: So far Sir Henry has told us that linking the rupee to sterling is the most advantageous course for India to adopt. He has given his reasons, so far as he went. Now I should like to know from Mr. Birla or anyone who can tell us, if that is not advantageous, why is it not advantageous, so that we may hear that point of view also; and, if it is not advantageous I should like further to hear what is the advantageous course to adopt. If you can confine yourselves to those two points then I think we might be able to understand the position.

The Chairman: I think Mr. Birla is going to get on to that point.

Sir Henry Strakosch: I think perhaps you had better tell the Committee what are the disadvantages of hitching the rupee to sterling and what better

currency system you think would serve the needs of India.

### India's Favourable Balance

Mr. Birla: What I am asking is exactly what England has done; when I say the rupee should be allowed to find its own level I am merely asking that we should do exactly what England has done. She had her budgetary difficulties and she had also the problem of the flight of capital. It is suggested, however, that England is a creditor country and that India is a debtor country, and that therefore in the case of India the same principle could not be applied.

Well, India is undoubtedly a debtor country, but against that there is the fact that while England has got an adverse balance of trade India, in spite of the depressing times she has been going through, has been able to maintain a trade balance in her favour. If you look into the history of the past forty or fifty years you will find that every year India has been fortunate enough to maintain a balance of trade in her favour. That should go a great way towards solving that difficulty.

Coming to the other question, as to how it will affect India if we link the rupee to sterling, I will mention a few disadvantages.

First of all, we ought to bear in mind that our gold resources are very slender indeed. A lot of gold was dissipated in maintaining the exchange at 1/6d. gold, with the result that slender before, they have now become much more slender. In the paper currency reserve—I am now speaking from memory—about four or five years ago the gold resources (and in those days sterling was synonymous with gold) amounted to 68 crores of rupees. To-day I think only



4 to 5 crores worth of gold is left in the paper currency reserve, and there are no sterling securities. That is the position.

Therefore, in order to maintain exchange in the manner suggested, it is necessary to adopt one of three courses. The first would be to sell silver by melting rupees. That would be most unjust, and even if you wanted to sell at this stage you would not get an economic price. Another course would be to borrow money in England. Now we know, Sir, what was the fate of the last loan we wanted to raise in England and the position since then has not improved. Suppose, however, we got money under the guarantee of the British Government, that would not add to our prosperity in any way, because then our annual liabilities under the head of debt service would increase, and more money would have to be found through revenue in order to meet these liabilities. In the past we have pursued a policy of currency contraction in India, borrowing money at very heavy rates just to burn the notes. We have increased our liability during the last six or seven years to the extent of 250 crores, not because we required this money for productive purposes but because we wanted to contract the currency and to reduce to ashes some crores worth of currency notes.

Now, if we come to such a situation, what should be the position of India? Sir Henry Strakosch suggested that at present the real value of the rupee should not be more than the worth of its silver content. I do not agree with Sir Henry Strakosch that the real value of the rupee is as low as that, but if it is as low as that there is no justification for maintaining the rupee at such an unduly high level by



artificial means.

The Chairman: I do not think you have got Sir Henry Strakosch's point. He did not say the real value of the rupee was only its silver content, he said if you let it go it would inevitably go down to that value; that is where it would stop.

Mr. Birla: That is how I understand it. It means that if you do not maintain it at an artificial level it would go down to its natural level, which would be, according to Sir Henry Strakosch, say 6d. or 7d.

### How to Maintain 1½d.

Now, if that would be its natural level, then I say there is no justification for maintaining the rupee at such a high level as is suggested. If a businessman like myself realises that the real value of the rupee is not more than 6d. or 7d. I should naturally like to send my money out of India, and how would the Government meet that demand for sterling? The Government would be offered rupees and would have to find sterling against that. Probably they would continue to do it for a certain period, just as they did when they maintained the exchange at 1½d. gold. In this way, they would dissipate our sterling resources. We have not got any in the paper currency reserve; but we have still got some in the gold standard reserve. After dissipating them, they will find that no more resources are left, and they will have to say "We cannot supply any more sterling", and then the rupee will become inconvertible, and those who have not sent their money out of India will have nothing left but paper currency; and that would be a serious thing for India to face.

We have been telling the Government, in season and out of season, that we should not stake our

resources for maintaining 1½d. gold. The gold has been frittered away, and now we say that if we pursue this course further and maintain the exchange at 1½d. sterling, our sterling resources too will be frittered away. I therefore think that in the interests of India we must conserve our resources.

What did you do in England? You may correct me if I am wrong, but I have looked into the figures of the gold resources of the Bank of England, and I find that the highest amount which the Bank of England has held during the last few years was not more than £160,000,000. When it fell to £133,000,000, you at once suspended your gold standard, because you wanted to conserve your position.

What is our position? We had gold resources in the paper currency reserve amounting to 68 crores; to-day we have only 4 crores in gold and nothing in sterling, and still you insist that the rupee should be maintained at 1½d. sterling. I think that is unjust to India.

Mr. Jinnah: If the rupee was let loose in the present crisis, do you admit it would reach the level of 6d.?

Mr. Birla: No, I do not admit that.

Mr. Jinnah: Why not?

Mr. Birla: I will tell you why not. After all, what is the position to-day? Take the case of silver coins. I estimate—Sir Henry Strakosch can correct me if I am wrong—that the silver rupee in circulation must be about 200 crores. That is my estimate; it may be 25 crores more or less.

Sir Henry Strakosch: I wish we knew.

Mr. Birla: That is the estimate of the Government of India and since I have been following that estimate I have been calculating how much since then has been withdrawn. Sir Basil Blackett knows more about



it than anyone else, and he can correct me if I make a serious mistake, but I think that estimate is approximately correct. Against that you have your gold standard reserve, which is about 50 crores at present, and the silver content of 200 crores of rupees also comes to about 50 crores, or say 9d. gold.

Now, supposing, for the sake of argument, that all this 200 crores, or even 150 crores, comes back to the Treasury and is exchanged for sterling or any other foreign exchange, the result would be a great tightness of money in the market, and therefore naturally the rupee would become dearer. There can be no question about that, because we have had so much contraction in the past that there is hardly the necessary money in India at present to meet the requirements of trade.

Suppose we have 200 cores of silver rupees and 150 crores of notes, or altogether 350 crores. If out of that about 150 crores is tendered back to the Government, surely there will be a great scarcity of money; and therefore I cannot believe that under any circumstances, the rupee could go below 1½s. gold. It may be 1ld. gold, but it cannot be below that, because it is impossible.

#### **Fall Below 1s. Gold Unlikely**

We have twice in India had our exchange divorced from the gold standard, and last time, when there was a very serious disaster, it went down from 2½ to 1½d. gold. Even then it did not go below 1½ gold, because it cannot.

On the other hand, if you allow your sterling resources to be frittered away, then surely the rupee can become inconvertible, something like the German mark or Russian rouble. It is to avoid that possibility that we have all along urged that our



resources must be conserved. We very much regret that they were not conserved, but, now that England has taken certain action, I think we must not undertake any liability to supply anything in exchange for the rupee. We shall be making a great mistake if we do that.

Sir M. Dadabhoy: When you refer to these 200 crores, you refer to rupees that are in circulation?

Sir A. Hydari: Is not our present silver currency more or less a token currency, and an inconvertible currency in one sense?

Mr. Birla: Yes, but a token currency which represents so much gold.

Sir A. Hydari: And the only support it has had is its connection with the English currency?

Mr. Birla: No. It was a token currency, undoubtedly—a paper currency or notes printed on silver—but they represented so much gold. Now they do not represent so much gold, but they represent so much sterling.

The Chairman: I think we are getting rather discursive, perhaps. Sir Henry Strakosch may perhaps prefer to deal with one point at a time, and the first one is that the rupee could not fall below 1½s. gold. Perhaps we might let him deal with that point and then pass on to the next.

Mr. Birla: What I maintain is that we should conserve our resources and not allow them to be dissipated.

Mr. Jinnah: What are your present resources? What is the figure you put down for present resources?

Mr. Birla: 40 million and 5 crores; that is all. 40 million in the gold standard reserve and 5 to 6 crores in the paper currency reserve. That is all we

have got, and that we should conserve; we should not touch it any more. And, as I said, if the assumption of the Government is that the natural level of the rupee is something like 6d. or 7d. I would suggest it is all the more necessary that we should not maintain it at 1½d., but I do not believe it can go down to that extent. If there is any likelihood of its going so low, there is no justification for maintaining the rupee at such a high level. But there are other points also I want to put forward against this action.

Sir Henry Strakosch: Perhaps I had better deal with these points first; otherwise we may get confused.

Mr. Birla: Yes.

#### England's Stronger Position

Sir Henry Strakosch: Let me first say a few words on the question of the balance of trade. Mr. Birla said Great Britain had an adverse balance of trade, but India had a favourable balance of trade. I should like him to remember that the trade figures as they are publishing are by no means a guide, what you have to look at is the balance of payments. Take the case of Great Britain which with a very substantial income from foreign investments, can afford to have, and indeed has for a number of years had a very substantial trade adverse balance, which was made good by invisible exports in the form of dividends that have come in, and so forth. Let me say another thing. If world conditions had not been disturbed as they are to-day, we could have lived for a great many years with an adverse balance of payments, because Great Britain's investments abroad amount to something over £3,000,000,000. Great Britain could have afforded for a great number of years to draw on her



foreign assets, and by that process could square her international account of payments. It would not have been the right course to take, but Britain could have gone on doing it as long as I and many of us here live.

But what is the position of India? You spoke of a favourable balance of trade. That is perfectly true, but what is India's balance of payments? The mere fact that right through last year the currency authorities in India were compelled to sell Reserve Councils is clear proof that India did not square her balance of payments; she was not able to meet her foreign liabilities from her own resources, in spite of the fact that there was a favourable balance of trade. It meant, in other words, that her invisible exports were inadequate to meet the liabilities of India abroad.

Now, you may argue that India has frittered away her gold reserves. If, however, her balance of payments is on the wrong side, what other method is there to rectify the disequilibrium than drawing on the country's reserves? That is exactly what has been done. Because the balance of payments was adverse, it became necessary to draw on your sterling reserves—not on the gold reserves—to meet that situation.

If you had not met the situation in that way, what would have been the consequence; India would have had to default. What would it have meant if it had to default? The rupee would have fallen headlong, because the gap could only be bridged purely by monetary inflation, and if you inflate, you depreciate the currency constantly.

Let me now take your other point, that the rupee could never fall below what you worked out to be the metal value in the reserve of India. I cannot

agree with that way of looking at it. The value of a currency depends entirely upon the amount of currency which is put into circulation in relation to the amount of trade that this currency has got to support. If India is unable, owing to a budget deficit or other reasons, to square her budget, and she resorts to inflation—which would happen if she did not meet her liabilities—then the volume of her currency is increased to such an extent that it can depreciate to any point, except where you have solid value behind it, that is to say the 5d. or 6d. value contained in the present silver content of the rupee.

It is impossible, therefore, to add up what you have in the reserve and say that that is the value of the rupee, because you do not know how many rupees you may need in order to square your internal account or your external account.

I should therefore like to impress upon this meeting that it is entirely wrong to say that India has frittered away her reserves. India has used her reserves in view of a disequilibrium in her foreign balance of payments to meet her liabilities, and I do not suppose there is a single man in this room who would advocate that India, rather than use her resources, should go bankrupt.

Mr. Gandhi: May I say one word? I am sorry, but I am working against time and have to keep an appointment which I cannot postpone. If you will kindly excuse me, therefore, I would like to go, though I know that this debate is very interesting and I had expected to learn a great deal from it.

The Chairman: We shall be very sorry to lose you, Mr. Gandhi, but if you cannot stay we must excuse you.

Mr. Jinnah: I beg to be excused, Mr. Chairman,



as I must go too.

Mr. Birla: Would it be better to postpone this meeting to some other day?

Mr. Iyengar: Could not we have a smaller gathering?

Sir M. Dadabhoy: Why? Let us all have the benefit of it; do not let us have a smaller gathering. We are all interested to hear this.

Mr. Benthall: It seems to me it is just as important that we should try to arrive at an agreeable solution of those currency questions and of the commercial relations between the two countries as it is that we should do so in regard to our political relations, and the more time we spend on this the more profitable we shall find it.

The Chairman: I want to meet the general convenience of the meeting. Would it be possible to have another discussion?

Sir A. Hydari: Can we finish the reply to Mr. Birla so far it has been developed?

### In Whose Interest ?

Sir Henry Strakosch: I should like, if I may, to say one or two words about the claim that the maintenance of the rupee at 1/6d. has been for British interests. In Mr. Birla's pamphlet I read that he claims that the endeavour to maintain the rupee at 1/6d. has been for the benefit of British manufacturers, British investors and members of the I.C.S. I think I ought to deal with that now, because it is very germane to the whole question.

Mr. Birla: Don't you think it would be better if we discuss that question later?

Sir Henry Strakosch: It is, I submit, germane to the question because the accusation has been made

that the gold and sterling reserves have been frittered away. That is linked with the statement that they have been frittered away in British interests, and it seems to me that point ought to be cleared up. I do not know whether the Chairman agrees, but it seems to me it is essential that we should be clear on that point also.

The Chairman: I think it is rather relevant.

Mr. Birla: You may want to reply, and, if we are going to adjourn soon, I think such an interesting point should be raised at the next meeting, because it is a very important question. I think I am right in making that accusation, and I am not the only person who makes it; you will find that the entire Indian opinion is against you on that point, and it is a very controversial point from your point of view. Personally, I am quite ready to go on with the discussion until midnight, but it is such an important point that if we are going to adjourn I think we should take it up at the next meeting.

Sir Henry Strakosch: You have just said that the whole of India, or a great part of India, is of that view. If that is so, surely, it is germane at the present discussion.

Mr. Birla: It is quite germane.

Sir P. Thakurdas: It is very germane, but I suggest this point be developed by Sir Henry at the next meeting, because it will want a good deal of discussion.

The Chairman: Yes. It is a very important point, and if we are going to have another discussion it would be better to keep it until then, because there will be a good deal to be said about it on both sides. I am only acting for the Secretary of State, of course, but I will tell him that you would like to have an-



other meeting if he will arrange it.

The meeting adjourned at 6.45 P.M.

### Another Meeting

The discussion was resumed on October 16 with the Secretary of State in the chair:—

Sir Henry Strakosch: Perhaps I may refer here to a point made by Mr. Birla in a letter recently published in the "Manchester Guardian". He was complaining that India was compelled to sell its products at a fall of prices of some 36 per cent., whereas it had to pay for its imported manufactured goods prices which had fallen only 16 per cent. That is not only applicable to India; that is applicable to the whole world, as you will see from this chart, where I have shown by graphs the ratio of farm produce to manufactured goods, or raw materials to manufactured goods. You will find that there is complete equilibrium up to the end of 1929. From the end of 1929 the disequilibrium starts; that is to say, the raw products having fallen more heavily than the manufactured goods, these drop sharply down. That is a phenomenon which is easily understood. Manufactured goods cannot be reduced in price very rapidly, because it is very difficult to reduce wages very rapidly; so that the phenomenon to which Mr. Birla referred is world-wide; it does not merely apply to India.

### India's Suffering Exceptional

Mr. Birla: I beg to differ, for these reasons. Look at the index figures of India as compared with the United States of America. If you take the years 1924 and 1931, you will find that whereas in Calcutta the drop is from 173 to 100, or 42 per cent., in America it is from 155 to 117, which is only 25 per cent. I there-

fore say that there is something peculiar to India, because India has suffered more than any other country.

Sir Henry Strakosch: I happen to have considered that too, and I have here a chart that shows plainly that, certainly from the year 1929, there is a very close coincidence of all price levels, which is perfectly natural, because any country on the gold standard is linked to the purchasing power of gold, and the purchasing power of gold governs prices in all gold standard countries.

If I may then continue, this gigantic fall of prices has created chaos in the world, and in India as well as in the rest of the world. The result is that, as I will show presently, the maintenance of the gold standard has become impossible. 40 per cent of the countries which have gone off the gold standard since 1930 have linked their fortunes to sterling.

Mr. Birla: May we have the names of the countries?

Sir Henry Strakosch: I will give them to you in a minute. These 7 countries include Ireland and Egypt, and no one will say Ireland is not about as anxious to retain its independence as a British Dominion as any other country. It is the same with Egypt. I will give you a list of the countries which have gone off the gold standard and have hitched their currencies to sterling:

India, Egypt, Portugal, Irish Free State, Northern Rhodesia, Southern Rhodesia, and New Zealand.

Australia cannot be said to be linked to gold, because its currency has depreciated but it is keeping the depreciation at a steady figure linked with sterling.

Mr. Birla: Are they statutorily linked with the



English sterling? Have they statutorily linked their currency with the English sterling?

Sir Henry Strakosch: No, they have not.

Mr. Birla: That is what I wanted to know. We have done that in India.

Sir Henry Strakosch: I submit you simply left the Act as it stands.

Sir Purshotamdas Thakurdas: What about the Ordinance?

Sir Henry Strakosch: The 1927 Act provides that the currency authority in India can satisfy at its option the demand for gold by sterling, if it so prefers, and therefore the Act stands as it was passed in 1927.

Mr. Birla: What is our position at present?

Mr. Iyengar: That is what I have wanted to know all along.

#### Only Pegged At Lower Point

Mr. Birla: The statement was made that in the future the rupee would be pegged to sterling. What is the position today? Are we pegged to sterling or are we pegged to nothing.

Sir Henry Strakosch: I think you are pegged to sterling. Any person, under the Act, tendering rupees can demand gold or sterling, but the option to give gold or to give sterling is with the currency authority. Therefore as things are, and so long as the 1927 Act is in force, you are linked to sterling.

Mr. Iyengar: Is it in force today?

Sir Basil Blackett: Yes.

Mr. Birla: May I pursue the point further? If we are pegged to sterling, does the Government undertake to buy sterling where it is offered in exchange for rupees? When you peg your currency to gold or

to a certain other currency, you undertake the liability both ways; you undertake, if it is pegged to sterling, both to give sterling and to buy it. If you peg to gold, you undertake to buy and to sell gold. What is the present position of the Government of India? Are they pegged to sterling, or have they simply undertaken the liability to provide sterling for rupees, thus preventing the rupee going lower than 1/6d? If the rupee showed a tendency to go above 1/6d, what would the position be? That is what I want to know.

Sir Henry Strakosch: The position is this, that the currency authority in India is obliged to give for rupees either gold or sterling or to buy gold. In the eventuality mentioned by Mr. Birla, I agree it could rise above 1/6d.; that is so.

Mr. Birla: If that is the position, then I would say it is something contradictory to what was stated by the Secretary of State before the Federal Structure Committee, which for your information I will read:

"The greater part of India's external obligations is in terms of sterling. To follow gold and so increase the sterling value of the rupee at this juncture is, I am sure you will agree, out of the question".

Yet what was said before the Federal Structure Committee to be "out of the question" has been provided under this Ordinance; i.e., you allow the exchange to go higher than 1/6d but you do not allow it to drop below 1/6d. That is the position. First there was the Ordinance issued by the Government of India; then the Secretary of State made the statement that the rupee was being pegged to sterling; and now the action taken by the Government of India amounts to this, that it is not pegged even to



sterling.

Sir Henry Strakosch: The legal point may be perfectly right but I very much doubt whether the rupee will go of its own accord above 1/6d.

Sir Purshotamdas Thakurdas: But it can go.

Sir Henry Strakosch: It can go, provided the policy of the currency authority were to allow it. Therefore it is perfectly right to say that the rupee is pegged at the lower sterling point. May I add this, however? That position, of course, was produced not by the Ordinance but by the Act of 1927.

Sir Purshotamdas Thakurdas: Surely that could be altered by the Ordinance? The Ordinance has all the force of a statute, has not it?

Sir Basil Blackett: It seems to me purely a legal point. When the practical point arises, some quite different position will arise too.

Mr. Birla: I do not care about the legal point, but what is the position of India? The Secretary of State said India was linked to sterling, but I submit by the Ordinance the Government of India have not even linked the rupee to sterling; they have simply stopped the exchange going below 1/6d.

Sir Basil Blackett: They have taken the only practical step that is required to link it to sterling.

Mr. Birla: Are we to assume that we are linked to sterling?

Sir Henry Strakosch: You are certainly linked to sterling at the lower sterling point. You will quite realise that on September 21 very prompt action had to be taken; very prompt action had to be taken to prevent the rupee from sliding down and causing, perhaps, a great commotion in India. Therefore there was not any time to do any more. It was perfectly sufficient to do what was done, because there

is no violent danger of the rupee appreciating above 1½d. sterling. I wish there was; then we should be able to make remittances!

Sir Purshotamdas Thakurdas: Is it the intention of the India Office to set this right, or will they wait until the rupee shows a tendency to rise? What is India to understand? That by this a sort of protection has been given to the rupee under the 1½d. lower point? Higher up even the statute does not operate unless the Government of India or the Viceroy legislates or takes action.

Sir Basil Blackett: It is a perfectly academic point.

Sir Purshotamdas Thakurdas: It may be a very realistic point in a few months, or at any period. We only want to understand what the position is; that is all.

Sir Henry Strakosch: That surely is a matter for the Government of India to consider. I am not in a position to reply.

### No Reply Available

Sir Purshotamdas Thakurdas: Do the Government undertake to buy gold only at Rs. 21 odd annas and odd pies, even though gold in the natural market is worth more than Rs. 25? Even though gold in the open market is worth more than Rs. 25 a tola, do the Government undertake to give only Rs. 21 odd for it?

The Secretary of State: The position is exactly the same as in London.

Mr. Birla: But do you think in India that situation is one you would like to see continued?

Sir Henry Strakosch: I see no reason why it should not be; I do not see any disadvantage in it continuing in India.



Sir Purshotamdas Thakurdas: The disadvantage is great. As you know in the India Office, a good deal of gold is coming from the rural areas, owing to the distress there, for sale in Bombay. If the Government of India is going to buy it at only Rs. 21 odd, and not more, there is no option left to the man who is dealing in gold but to export the gold, in order to give the man Rs. 25.

Sir Henry Strakosch: (Referring to the export of gold)—You will never get rid of your liability to meet your foreign obligations, and the only way to meet them is by using gold, unless you can induce the world to accept other things; and it is because the world refuses to accept other things that you are compelled to send out gold.

Mr. Birla: In the case of India, the only way to redeem a liability is to increase your exports, and to pursue a financial policy which will give you better exports. What you are doing is exactly the reverse.

Sir Henry Strakosch: Mr. Birla, you are a very experienced and a very astute business man. Will you tell me how you can export and sell goods out of India if the world does not want to have the goods?

Mr. Birla: We can curtail imports in that case, and thus increase the favourable balance of trade. It is quite easy to do that.

Sir Henry Strakosch: How?

Mr. Birla: We can produce our own requirements in India, and thus increase the balance in our favour, which is what you propose to do in England by means of tariffs. You want to curtail your imports.

Sir Henry Strakosch: Have you read the latest budget proposals in India? Do you realise that there has been an all-round increase of 25 per cent. on tariffs?

### Why Not Acquire Gold?

Mr. Birla: And I made the remark on that budget that it was too late now. Action was taken there when it was too late.

But, to pursue this point about gold, may I ask this? Isn't it the intention of all of us to establish a Reserve Bank eventually and hand over the currency department to the Reserve Bank? In fact, that is one of the problems which will come before the Round Table Conference. Now, I think you will all agree you cannot establish a Reserve Bank without having sufficient gold, and I think it should be the desire of all those who want to see a Reserve Bank established as quickly as possible to see that gold is acquired by the Government of India; and here you have an opportunity of acquiring gold. If it is the intention to establish a Reserve Bank, why should not we acquire the gold? We can get gold at gold's price. It may be that today, in terms of a depreciated rupee, it comes to Rs. 26 odd; but, after all, gold is equal to gold, and therefore whether you acquire it at Rs. 26 with a depreciated currency or at Rs. 21 with the rupee at 1/6d gold there is no loss; it makes no difference. Therefore, would not it have been advisable to acquire this gold and thus give some security to the proposal to establish a Reserve Bank?

Along with that question, perhaps you will answer this. If it was not thought desirable, how are we going to acquire gold for the establishment of a Reserve Bank?

Sir Henry Strakosch: My answer is this. It is perfectly true that every member of the Currency Commission in 1926 advocated the establishment of a Reserve Bank. I was, I believe, one of the strongest supporters of the idea. We also recommended the



establishment of the gold standard, and I agree with you it would be highly desirable, if circumstances were now as they were then, to acquire gold in anticipation of the establishment of that Reserve Bank. But to be able to do so you have in the first place to have the means of acquiring gold; that is to say, you must be able to save in order to acquire the gold. But, as I have just pointed out to you, no one is able to save in the present circumstances; no one has the possibility of a surplus. We are fighting to keep the budget in balance and not have a deficit.

The second point is this. You have to determine, before you set up a Reserve Bank, what your currency system is going to be. India is off gold. Is India going to revert to the gold standard, or is it going to adopt any other standard? I believe it was you who suggested that the rupee should be allowed to find its own level?

Mr. Birla: I stick to that.

Sir Henry Strakosch: I should like—it will take me only a few minutes—to make you appreciate what the depreciation of the currency means. Supposing, to take the proposal made by Mr. Birla on the last occasion, India were to allow the rupee to fall and give no guidance to the market until the rupee has fallen to one shilling. At that point, if I have understood Mr. Birla correctly, he would say 'let us try to stabilise the rupee at one shilling gold'.

Mr. Birla: I did not say we should stabilise it at this stage; I said, 'We should let the rupee go down to one shilling, or even a little below, and after that acquire gold. After you have done that and you find you are in a position to stabilise, you might consider stabilising on the gold standard, or if public opinion was converted to a commodity standard, we might give up the idea altogether; but most probably the world is

so orthodox that it would not give up the idea of going back to the gold standard.

I say that if we are going back we should acquire gold, and the only way to do that at present is to allow the rupee to go down so that your exports will be increased and your imports will be curtailed, and there will be a fresh demand for currency in exchange for gold. You can expand your currency when you are on gold, but we must avoid inflation. When we have acquired sufficient gold, we can consider the advisability of stabilising the rupee at a certain ratio. That was my suggestion.

Sir Henry Strakosch: As I see it, if you follow that policy and tell the world you are going to allow the rupee to find its own level, it is inevitable that the rupee will at once fall to a shilling, and perhaps less.

Now, what is the effect of a depreciation of the currency? It at once raises the level of prices in India. The raising of the prices in India has the effect of reducing the value of all claims fixed in terms of money.

Mr. Birla: Exactly.

Sir Henry Strakosch: That means that a depreciation of the rupee would damage all rupee creditors, all those who hold cash securities or have savings in the Post Office savings bank or pensions. It also adversely affects all recipients of salaries and wages; they are all expressed in terms of rupees. Your wage earner, owing to the lower purchasing power of the rupee, will have a lower real wage. All State and Provincial budgets, in respect of their tax receipts, are damaged except in regard to taxes which are levied on *ad valorem* basis.

And who benefits? All those who have rupee obligations to meet, that is to say the debtor class; and included in that debtor class is, of course, the Central



Government in respect of its rupee debt. All employers of labour benefit, and all mill-owners benefit by it simply because they are paying to their workers rupees of a lesser purchasing power, and then—

### Gain to Agriculturists

Sir Purshotamdas Thakurdas: All the agricultural population, which is the largest class, benefit, because they have the largest amount of debt. I want to complete that list!

Sir Henry Strakosch: I will come to that in a moment. Furthermore, all those who have expatriated their capital from India will reap a rich harvest. They will make a profit at any point down to the point at which the rupee stops. That is to say, a man who has expatriated his capital at the 1½s. level of the rupee, if the rupee falls to 1½- makes 6d. on every rupee; that is to say, he makes a profit equal to one third of the capital which he has expatriated.

Mr. Birla: May I know how he expatriates his capital when the Government does not undertake to sell sterling? How does he expatriate capital? By exporting goods from India?

Sir Henry Strakosch: Yes, and by retaining the proceeds in another country.

Mr. Birla: And does that tend to give an impetus to the exports of India?

Sir Henry Strakosch: Yes, very well; but what is the use of that impetus if the money is not returned to India? Your balance of payments remains completely upset, and that is exactly what has happened in every one of the countries that depreciated its money.

Mr. Birla: And does the money expatriated out of India in any way reduce her foreign liabilities? Is

that also the logical consequence of such a position? If money is expatriated out of India—you say by the export of gold; I say by the export of commodities—does not that go to reduce her foreign liabilities?

Sir Basil Blackett: It has caused the Government of India to borrow £50,000,000 in this country in the last three years.

Mr. Birla: Does that reduce India's foreign liabilities?

Sir Basil Blackett: No, it increases them.

Mr. Birla: Do you mean to say that when money is expatriated that increases your liability?

Sir Basil Blackett: It increases the liability of the Government and reduces the liability of the individual. What has actually happened in the last three years is that the balance of trade of India has almost all of it, if not more than all of it, been used to retain money out of India; and to balance India's balance of payments the Government of India has borrowed something over £50,000,000 in this country.

Mr. Birla: Did not that happen when the rupee was not falling, but was stabilised at 1½d?

Sir Basil Blackett: It happened very largely because people were speculating against a fall.

Mr. Birla: You think so?\*

\*There was another meeting—on October 29th. The discussion did not result in any change or modification of Whitehall's policy nor was it expected to; but it had the good effect of convincing our leaders who attended the discussion that the demand for a "free" rupee was really in the best interests of the masses. In the end, Gandhiji told the Secretary of State that his verdict must go against him in the matter.





## FINANCE

Indeed, indeed, Retrenchment oft before  
I swore—but did I mean it when I swore?

And then, and then, We wandered to the Hills,  
And so the Little Less became Much More.

Whether at Boileaugunge or Babylon,  
I know not how the wretched Thing is done,  
The Items of Receipt grow surely small;  
The Items of Expense mount one by one.

—KIPLING, *Rupaiyat of Omar Kal'vin*.





**INDIRECT TAXATION\***

Sir, the Honourable the Finance Member when introducing his Budget announced with no little jubilation, amidst cheers from the Treasury Benches, that he was in a position to present to the House the fourth surplus budget in succession. I wish I could have joined my friends on the Treasury Benches in swelling the chorus of congratulation to the Finance Member for the result which he has shown us. But my difficulty is that I cannot help feeling that although we have had the fourth surplus budget in succession, we did not have it without resorting to enormously increased taxation which was all the time concealed from this House. If we look at the figures for 1924-25, we find that the net expenditure in the year amounted to Rs. 132 crores which if calculated at the rate of exchange prevailing at that time and converted into gold would come to about £80 million. For 1927-28, although the total budgeted expenditure is apparently Rs. 7 crores less, it amounts in terms of gold to £93 million which is £13 million more than in 1924-25. Between 1925 and 1927 in this manner by means of manipulation of currency and exchange, the Honourable the Finance Member will have been able to exact from the tax-payer nearly £40 million or about Rs. 60 crores more than in 1924-25. I hope that as he himself

\*Speech in the Indian Legislative Assembly on 3rd March, 1927.



said towards the conclusion of his speech that money represents nothing more than the power to command goods and services, he will agree that the rupee represents a larger amount of gold, goods and services than it did in 1924-25 and that, therefore, he cannot claim any credit for the surplus budget which has been made possible by the exaction of about Rs. 60 crores as concealed taxation during these three or four years. I strongly protest against this sort of manipulation and I hope that when the proper time comes this House also will lodge its strong protest against it.

#### Reversion to 16d.

Sir, with a view to justify this manipulation, the Honourable Mr. Brayne\* has circulated a note on the effect which 1s. 4d. is likely to have on the finances of the Government of India. He estimates that if we were to revert from 1s. 6d. to 1s. 4d. the probable loss to the finances of the Government of India will amount to nearly Rs. 5 crores (The Honourable Sir Basil Blackett: "Over")—to over Rs. 5 crores as the Honourable the Finance Member points out. Mr. McWatters† of the Finance Department was asked by the Currency Commission to submit a note showing the effect which 1s. 4d. was likely to have on the finances of the Government of India and he was good enough to put up two notes which appear as appendices to the Report of the Commission. We find on comparing these two notes with the present note of the Honourable Mr. Brayne, that Mr. McWatters did not estimate the same amount of loss to the finances of the Government of India, from a reversion to 1s. 4d.

\*Mr. A. F. L. Brayne, Finance Secretary, 1926-27 & 1932.

†Mr. (later Sir) A. C. McWatters, Secretary to Government in Departments of Finance, Industries & Labour, 1923-31, who acted as a Member on various occasions.

I must presume that Mr. McWatters' note was prepared in consultation with the Finance Department. The accuracy of his estimate was not disputed by the Honourable the Finance Member then, and it is rather surprising that the Finance Department should at this stage come forward with a new story and endeavour to put a new complexion on the whole matter. I do not wish to go into the details of this note having regard to the short time which is at my disposal, nor do I desire to address myself to a discussion of the merits or demerits of the one or the other ratio, but I submit that this note is a document abounding in gross exaggerations and mis-statements which can be proved to be such by facts and figures.

The Honourable Sir Basil Blackett (Finance Member): Will the Honourable Member prove them by figures?

Mr. Ghanshyam Das Birla: Yes, I am coming to that. I agree with the note so far as it states that on account of the reversion to 1s. 4d. the Home Charges will be increased. I admit that, but so far as the Customs and Income-tax receipts are concerned, I do not agree. Mr. McWatters in his note which he put before the Currency Commission estimated, of course, on the assumption that the volume of imports will not decrease, that the net gain in revenue from Customs would be about 2 crores 62 lakhs, while Mr. Brayne estimates that we are going to lose one crore of rupees under Customs receipts.

The Honourable Sir Basil Blackett: Is that with immediate effect?

#### **Imports Depend on Exports**

Mr. Ghanshyam Das Birla: No. But I wish to point out that it might be contended by the Honourable the



Finance Member that if the prices of imports rose, probably the volume of the imports might contract or shrink, but that has not been our experience in the past. I shall put before the House the figures from 1904 to 1925, and Honourable Members will find that whenever we had a prosperous year in this country and an easy money market, there was a rise in prices and we had more exports and imports; and whenever there was a fall in prices, we had less imports and exports. I do not propose to take up the time of the House by quoting figures, but still I cannot resist the temptation of citing them, because it is very necessary to do so. In 1904 the index figure for the imported articles stood at 93, while the imports were £69 million sterling. The next year the index rose to 96, and the imports to £74 million sterling. In 1906-07 the index rose to 105 and the imports rose to £78 million. In 1907-08, the index had a further rise to 116, and along with that, the imports rose to £91 million sterling. In the next year 1908-1909, the prices of imported articles fell, and what did we find? There was no increase in imports, there was rather a decrease from £91 million sterling to £85 sterling and in the subsequent year 1909, when there was a further drop in the index number, the imports registered a fall to £81 million sterling. From 1910 to 1911 there was a continuous rise in the imported articles; and we find that in almost every year, with the exception of one year 1915-16 during war time,—in almost every year from 1904-05 to 1925-26, whenever there was a rise in the prices of imported articles, there was an increase in the imports, and whenever there was a fall in the prices, there was a decrease. Therefore, if we are to base our calculations on past experience, I hope the Honourable the Finance Member will admit that the

rise in prices has tended to increase the imports, while the fall in prices has tended to reduce the same, and if we are to base our calculations on the figures, we must come to the conclusion that there is no possibility of our revenue receipts from Customs dropping. On the other hand, we expect, if we revert to 1s. 4d., the receipts from Customs will be very much larger than they are at present.

### **Income-Tax Receipts**

Another very amusing statement which has been made by the Finance Department is that on account of the dislocation of trade which might be caused by a reversion to 1s. 4d., it might be difficult to collect a portion of the income-tax receipts. This is really amusing because what we businessmen have experienced in the past is that whenever there has been prosperity in the country, and whenever there was an easy money market, there have always been increased receipts from the Income-tax Department. It is impossible for us to accept the theory of the Finance Department that under 1s. 4d. there is a likelihood of a fall in the receipts from income-tax, as the figures of the past four years in respect of receipts from income-tax do not prove the contention of the Finance Department. In 1923-24 when exchange was about 1s. 4d. the receipts from income-tax amounted to 17 crores 60 lakhs. Today, Sir, we have got exchange at 1s. 6d. but what do we find? The revenue from income-tax has fallen from 17 crores 60 lakhs to about 15 crores and odd, that is, there is a loss of 2 crores 38 lakhs. This is the tale which the figures tell us. I am sorry that the Finance Department should have thought fit to place before this House a document so exaggerating and misleading. Whatever might be the



personal views of the officials of the Finance Department, we expect them to supply us with correct facts and figures and not wrong information, or a biased version of things.

I again protest that a true picture of the situation has not been presented to us. While the Finance Department has thought fit to point out problematic losses which are likely to be incurred on account of a reversion to 1s. 4d. they have concealed from this House the fact that in attempting to maintain exchange at 1s. 6d. the Government had to forego receipts in the shape of interest to the extent of over one crore of rupees which they used to realise from investment in sterling securities in England. What is the guarantee that Government will not have to resort to heavier borrowings in England in order to maintain exchange at 1s. 6d.? What is the guarantee that they will not have to borrow a very large amount in England in order to maintain exchange at this artificial ratio, and if they did that, who was going to pay all that interest? Will it not be the tax-payer who will be heavily burdened on account of this extra interest which he will have to pay? I maintain that while this so-called loss is problematic, we have already incurred a loss of  $2\frac{1}{2}$  crores under income-taxes and of more than one crore under interest receipts on account of the exchange being maintained at the artificial rate of 1s. 6d.

### Provincial Contributions

I do not wish to say anything about the provincial contributions.\* I have got full sympathy with the

\*Provincial contributions came to be a corollary of the Montagu-Chelmsford Reforms which involved a deficit in the Central Finances to be met by such contributions in accordance with the Meston Award as modified by the Joint Select Committee of Parliament. The Award itself contemplated their gradual abolition and they came to an end with the budget for 1928-29.



demand for their remission; in fact I feel that it is already over-due. I wish that the Finance Member with the 60 crores realised during the last four years without the knowledge and consent of this House, had remitted the provincial contributions long ago. But I hope that the House will easily understand that the Finance Member is now trying to throw this bait to the provinces in order to catch votes for 1s. 6d. and I trust that the House will not be so easily misled by his note and by this talk of provincial contributions. What I maintain is that the remission of provincial contributions is more practicable under 1s. 4d. than under 1s. 6d. and I wish to point out that if this House will be firm and tell Government that we are not going to be misled in this manner, I am sure they will be able to get both 1s. 4d. and the remission of provincial contributions at the same time.

## II

### CONCEALED LOSSES\*

Sir, there is one point in the speech of my friend Mr. Arthur Moore† on which I not only congratulate him but with which I entirely agree. He had the frankness to tell the Finance Member that this was the first time when this House was told of the accrued liability on account of the postal certificates. He also very appropriately reminded the Honourable the Finance Member that his action in concealing the losses from the House made him liable for one day's simple imprisonment, if such a thing ever happened in any commercial firm. I beg to state, however, that this is not the only direction in which the Honourable the Finance Member has juggled with figures and tried to mislead this House. I sincerely wish that I had been in a position to offer him my congratulations at least at this stage when he is about to leave India for good, but I am afraid, after knowing too well that he is responsible for placing incorrect and misleading statements before this House, it will be impossible for some of us to offer him any compliments. Sir, the other day the Honourable the Finance Member remarked that he was a better Swarajist than some of those sitting on the opposition benches. I confess I would be horribly shocked if my Swarajist friends put before this House a statement like the one put forward by Sir Basil full

\*Speech in the Indian Legislative Assembly on 7th March, 1928.  
†Formerly editor of the Statesman.

of untrue and incorrect statements. It is not the Honourable Sir Basil Blackett but his successor whom we shall hold responsible for the accuracy of this budget, and therefore I maintain that it is not only unfair to this House but unfair in a greater sense to his successor that he should have put these misleading figures before us.

### **No Relief to Tax-payer**

Before I proceed to criticise the various statements, I might say a few words by way of warning against the danger which is hovering over us. We have had five successive good crops. In the natural course, good crops should have redounded to the prosperity of the people. But what do we find? Most of us in this House know that the purchasing power of the country at present is at its lowest ebb. There is practically no demand for piece-goods, foreign or Swadeshi, and people are poorer in every way than they were five years back. One may very pertinently ask: What is the reason for the poverty of the people in spite of the fact that we have had five successive good crops? The answer is very simple. The country is practically being crushed to death under the heavy taxation. I tried in my speech of last year on the Budget to put before the House how the Government through the appreciation of exchange had been able to exact a greater amount of revenue than they could have done under the ratio of 1s. 4d. It is not my intention this year to repeat these figures again. What I, however, wish to point out is that, due to the appreciation of exchange, the fall in the general level of prices and the five good years which we have had, it should have been possible for the Government to reduce their expenditure and thus give a great amount of relief to the tax-payer. But what do



we find? We find that, in spite of all these good factors which we have had during the last five years, the Government exact a greater amount of revenue from the tax-payer as compared with what they did in 1923-24.

In 1923-24, the total revenue amounted to about Rs. 133 crores, which now amounts to Rs. 132 crores, and this in spite of the remission of the provincial contributions. Now so far as the provincial contributions are concerned, their abolition has not brought any relief to the tax-payer. If I am not wrong, my information is that almost in every province taxation has increased since 1923-24 in spite of the remission of the contributions. (An Honourable Member: "This is a fact"). Some of my friends tell me that that is a fact. Now, Sir, this is the situation in spite of good years, in spite of the appreciation of exchange, in spite of the fall in the general level of prices; the Government of India and the Provincial Governments are collecting more revenue from the country than they used to do in 1923-24, and that is in short the reason why the purchasing power of the people is at a low ebb and why the poor people of this country find it difficult to buy even the bare necessities of life.

#### **Another Retrenchment Committee**

There is only one remedy for improvement of the present state of things, and that is retrenchment. It is for the House to consider very seriously whether we have not arrived at a stage when we should have another Retrenchment Committee. The Honourable the Finance Member may ridicule some of us who give him this warning; it is human nature that one who does not make himself agreeable is as a rule liable to be ridiculed. If any one had criticised the railway

management five years back the response from the Railway Department would have been the same. Even last year when my Honourable friend Mr. Chetty made the criticism that the railway expenditure was over-estimated, he was ridiculed. Thank God, his position was vindicated, but I want to know what proof is there that the other departments of the Government are not being run with the same extravagance and the same inefficiency with which the Railway Department five years back was being run. I hope that in their own interest Government would consider very seriously the question of retrenchment. If we were to have one or two bad years and if we were called upon to meet the concealed losses such as the deferred interest on postal certificates—I call them concealed because they have not been disclosed to this House—if we were called upon to foot the bill in any particular year, there would be only one alternative left for the Government, that being to increase further the present taxation, and I am quite sure that I am expressing the views of this House when I say that it would never consent to any further increase in the present taxation. It would be impossible for the Government to find ways and means to meet any possible deficit which they might have to face in any bad year unless they made retrenchment, and if not for the sake of the tax-payer, at least for their own sake they ought to consider the question of cutting down the expenditure very seriously. I would especially appeal to my European friends in this House because I want to tell them very frankly that the economic condition will play a great part in maintaining peace and contentment in this country. If the people were being oppressed under a wheel of heavy taxation and over and above that if we were called upon to impose further taxation, no sermon



on peace and contentment would be able to keep the people calm and peaceful. I hope, therefore, that the Government will seriously consider the question of retrenchment and take effective action in the direction.

### Criterion of Prosperity

The Honourable Sir Basil Blackett remarked in his Budget speech that the earnings of the Railways were a barometer of the prosperity of trade, and he implied thereby that the country was passing through a time of prosperity. So far as the imports of cloth and treasure go to show, so far as the collection of income-tax goes to show—if they are to be taken as a criterion of the people's prosperity—I must point out that Sir Basil's contention does not find any support in them. There has been a serious drop in the collection of income-tax, the duty collected on the import of cloth has been less than in the previous year, and the import of treasure has fallen by an amount of Rs. 6½ crores. The price of 3½ per cent. Government loan which stood at Rs. 77-7-0 last year stood at Rs. 75-15-0 this year. If all these things have got any significance, they only go to show that the country is not passing through a time of prosperity. The Honourable Sir Basil Blackett has budgeted for a higher figure for receipts from income-tax and customs in the estimates he has presented. I hope and pray that his wishes may be realised but as we all know there is many a ship 'twixt the cup and the lip. But granting that we shall get more money under these heads, I should like to know from the Honourable the Finance Member what provision he is going to make for those concealed losses which we may be called upon to pay in his absence. I was very much alarmed to note from his speech that the loan of 1918 issued at 5 per cent. premium which



matured in 1928 caused a sudden demand of about Rs. 80 lakhs on the revenue within one year. This is not the only instance in which the so-called deferred interest has been kept concealed from the House and eventually paid in some year. It was for the first time, as my Honourable friend Mr. Moore rightly remarked, that we happened to hear of the accrued liabilities of the postal certificates.

### Varying Practice

Sir Basil very plausibly defends his action by saying, "Oh, our Budget is a mere statement of receipts and disbursements in cash." I do not agree with him that our Budget is a mere statement of receipts and disbursements in cash. I should like to give a few instances which will show how in the past the practice has varied according to the convenience of the Finance Members. In 1923, a loan was raised at a discount and in one year the whole discount was written off, whereas in 1927 loans have been raised at discount in England and in India, and it is proposed that the discount should be spread over the period of the currency of the loans. Now, as regards these loans issued at discount or premium, such discount or premium represented nothing but interest which the loans carried. If that was so, what was the reason that in some cases it was proposed to distribute the amount over a period of years, while in other cases it was written off during one year? There must be some cause, and I would like to know from the Honourable the Finance Member why he varies the practice so arbitrarily. The real fact is that he acts in a manner which suits him best. Sometimes it suits him to conceal losses, while at other times it suits him to conceal profits. Sometimes it suits him to wipe off at one stroke a huge loan of

3½ crores lent to the Persian Government. At other times, it suits him to conceal profits derived from the enemy ships. That has been the sort of jugglery going on in the Finance Department from time to time, and I very strongly protest against it.

### System of Accounting

Similar treatment has been given to this House as regards the statement about the unproductive debt. If I rightly understand the meaning of unproductive debt, it represents nothing but a sort of loss which has to be carried forward from year to year, to be made up either by surpluses or by any other profits. Now, during the last few years he has been able to effect a reduction of about 80 crores in the unproductive debt. It is very difficult to say how the Finance Member ever happened to be in a position to achieve this miracle. How could he reduce the unproductive debt within one year to the extent of 20 crores? There can be only two explanations. Either there is an invisible surplus which has been kept away from this House, or he has used money from some other funds which were lying at his disposal. If he has kept any surplus concealed from this House, he is equally liable to criticism; but I think in the present case it is not so. If he has reduced the unproductive debt simply by using the various funds at his disposal, belonging to other departments, then I say again that he has done a very wrong thing. He must tell us how he did this. If the House does not get proper information about all these manipulations it will be difficult—impossible I should say—to trust the Finance Department in future. This is a very serious matter and I should like to invite the attention of the House, and of the Standing Finance Committee particularly, to this subject. To me it

appears that the whole system of accounting requires revision.

The Honourable the Finance Member will say: "All possible information is provided in the pile of books and papers supplied." Now, in the first place it is impossible for every member to go through the voluminous literature even if one had sufficient time at his disposal. Secondly, the system is so complicated that even after reading the books for six months one does not know where one stands. I would therefore suggest to the Finance Department that in future they prepare the accounts in a more concise and simple form. That is the only way to keep the House fully informed and prevent any manipulation being done without its knowledge and approval.



### III

#### RETRENCH AND PROTECT\*

Sir, before I proceed to touch on the general aspects of the Budget, I may be allowed to offer my hearty congratulations to the Finance Member† for presenting, if not a rosy document, at least a candid, frank and honest statement of the financial position of the Government of India. He has not resorted to those manipulations which used to be indulged in the past. He has not resorted to those juggleries which were the practice of his predecessor. He has made a sincere effort to present a true picture to this House, and he deserves congratulations for this.

Sir, the unproductive debt which was shown by his predecessor Sir Basil Blackett, as having gone down considerably from year to year, has been shown in its true perspective. Sir Basil Blackett stated in his last Budget speech that the unproductive debt, which stood at 254 crores in 1923, had come down to 178 crores in 1928. He intended to take credit by making this House believe that he had been able, during the period of his administration, to reduce the unproductive debt to a very large extent. But, if we compare the figures, as presented by the present Finance Member, with those presented by his predecessor, we find that the unproductive debt

\* Speech in the Indian Legislative Assembly on 4th March, 1929.  
† Sir George Schuster.

on the 31st March, 1923, stood only at 203 crores against the figure, as presented by his predecessor, of 254 crores. On the last occasion I called the Budget a bundle of untrue statements and now it has been confirmed by the present Finance Member that what I said last year was absolutely true.

Similarly, the Honourable the Finance Member has placed before the House the correct amount which we have still to pay for arrears of interest on the Postal Certificates, and if we take that into consideration the present Budget may be called a deficit budget to the tune of 7 crores. Of course, he is not to be blamed for that, but all the same the position is clear that this Budget, if you take into consideration all the arrears which we have to pay, is a deficit budget, and this is a very serious position which this House has to consider. I hope when the time comes for reviewing the scheme inaugurated five years ago for the avoidance of public debt, the Finance Member will take the House into his confidence and, in consultation with the non-official Members, devise measures to meet this deficit.

#### **Appeal for Co-operation**

The Honourable the Finance Member appealed in his Budget speech for co-operation. He remarked:

"If I have an ambition, it is this, that whether we encounter bad seasons or good, you should be able to say of me when my work is done, that I served your country at least to the utmost of my powers, and that in all that I did, my main thought was for the interests of the people of India."

Sir, this side of the House has got full sympathy with his noble aspirations. I may point out, however, the feeling which exists among the Members of this



side of the House that the policy of the Government of India and that of the Finance Department is generally laid down to suit the vested interests abroad. I hope during the period of his term he will be able to resist pressure and influence which might be brought to bear upon him by the powerful foreign interests; but if he can prove his mettle and steer his way clear of all the evil influences and pressure, his name will go down in history as one of the best Finance Members we have had. We wish him success and congratulate him for the noble aspirations which he has in his heart.

### A Gloomy Budget

Touching on the general aspects of the Budget, I might say that it is a very gloomy budget. The Honourable the Finance Member, probably out of consideration for the House—and he is a very considerate man—did not want to frighten it by portraying a dark picture of the position as it truly exists. All the same, one can easily read between the lines and assume quite correctly that, if we do not have one or two good monsoons in the future, or if the economic conditions of the country do not improve all round, two things are inevitable, that is, imposition of fresh taxation and heavy borrowings. The question which I ask myself is this; is it feasible, under the present circumstances, to raise new taxation? My answer is an emphatic "No". I shall ask the Honourable the Finance Member to seek the causes of the present situation in other quarters and not depend entirely on good monsoons. How is it that we had five successive good crops, and yet a partial failure of crops in one or two provinces finds itself sufficiently strong to disturb the equani-



mity of the Finance Department. Why is it that, in spite of five good years, even a slight shock is sufficient to make the whole financial system of this country tremble? There is something really wrong with the system, and I ask the Finance Member to find out the cause and remove it, and not depend entirely on good or bad monsoons. I may tell him that a good or bad monsoon is not all that can make or mar prosperity. It cannot solve the riddle. I grant that a good year will increase the revenue and save you from the task of imposing new taxation, but it is the bad year which causes a deficit, and it is the bad year which is worst suited for new taxation. It is the bad year which requires more relief than any other period, and therefore any talk of new taxation is out of the question. It is neither practical nor desirable. It is not a permanent remedy. I will ask the Honourable the Finance Member to find a permanent remedy to meet the situation, and if I may say so, the permanent remedy is to make retrenchment. That is the only permanent remedy. The country has exceeded its taxable capacity and so cannot pay more taxes, irrespective of good or bad years, and therefore the only remedy which he ought to take up very seriously and with courage is making retrenchment all round, in non-recurring as well as recurring expenses.

### **Retrenchment**

Sir, in my speech made last year I suggested that the time had come when we ought very seriously to consider the question of retrenchment. Now, the figures relating to the cost of defence very clearly disclose that there is scope for retrenchment. We have been pressing for the last many years that

the military expenditure should be reduced. But what was the reply? It was stated that there was no scope for retrenchment. But when there arose a necessity for modernisation of the Army, when extra money was required and when it was found that extra money could not be secured by any means, the military department itself, of its own accord, reduced its normal expenditure and brought it down to 52½ crores. Now, Sir, this clearly proves that economy was possible, but it had not been effected. This does not reflect much credit on the military department. But what guarantee is there that further economy could not be effected? And who knows what could be effected in this department, could not also be effected in other departments? This proves conclusively one thing, that the military department so far was being run extravagantly, and no one knows what more economy could not be effected. The Inchcape Committee\* recommended that 50 crores should be the limit of military expenditure. Since then there has been a fall in prices all round. There has been the appreciation of exchange, and on account of this there should have been a reduction in the sterling expenditure. Therefore, taking an all-round view, I think it is quite safe to assert that 50 crores is a limit which should never be exceeded. The military department has not been able to come down to that figure yet, and my own suggestion is that, not only in the military department, but in all other departments, the pruning knife should be applied in all seriousness. I do not know whether we should not have another retrenchment committee. In any case, I suggest that

\*This Committee was appointed with Lord Inchcape as its Chairman to recommend all possible reductions in the expenditure of the Central Government, and it submitted its Report in 1923.



the Government of India should take into their confidence the non-official Members of the House, and, in consultation with them, carry out retrenchment all round, in recurring as well as non-recurring expenditure. It is only a question of ways and means. We have not got the money; and if we have not got the money, the best policy would be to cut the coat according to the cloth. If you do not do that, you will repent it, for you will come to grief.

### Borrowings in England

Now, Sir, about borrowing in England. I may make it very clear at the outset that I have no objection to borrowing in England on grounds of economy. On the one hand we get money in England at cheaper rates of interest, and, on the other, this leaves a free field to the Indian industries for borrowing in India. Therefore if we have objected in the past to borrowing in England, it was not on grounds of economy but on political grounds. It will interest the House, as well as the Government, to know the views taken of such debts by those connected with the foreign interests. I will read an extract from "Capital," a Calcutta weekly commercial paper wherein "Ditcher" discussing the present political situation, and *inter alia*, the Indian debt to England, says:

"In a word if Swaraj is to come, let it be complete. Let us suppose that an East Indian Railway Company, with headquarters in Calcutta, found it possible to effect a complete purchase of the line within ten years, a Government Director, with a power of veto, retaining a seat on the Board until the transaction was complete. That would be true Indianisation, and until some such scheme is carried



through, there will be no real transfer of control, however numerous or plausible, at first glance, may be official undertakings to carry such a policy into effect. An 'alien' Railway Board is the inevitable accompaniment of 'alien' capital. The two go together and cannot be divorced."

This is the mentality of non-official Europeans in this country.

Similarly a correspondent discussing the political situation in India writes in the "Economist" of London:

"The retreat has already begun in the industrial sphere; it remains to devise measures to eliminate from the Indian balance sheet the large sums advanced by British investors for Indian development, chiefly for utilisation on railway and irrigation projects, through the agency of the Government of India. In other words, the British Raj cannot be bumped, bombed or bluffed out of India, but may, in due course, be bought out."

Now we can see the direction in which the wind is blowing. We cannot get Swaraj, we are not to be given Swaraj until we can buy out, or in other words, unless we can pay off our debts to England. We cannot have Indianisation in railways. The two must go together—alien government and alien capital. You cannot have Indianisation until you are able to provide Indian capital. That is the situation. We do not want to delay Swaraj and if getting into the clutches of the English money-lender means delay in Swaraj, we must oppose it. With this mentality of the English money-lenders it will be sheer folly to incur more sterling debts, and thus get ourselves into deeper waters. This is the reason why we have opposed sterling borrowing.

### High Bank Rate

Now, as regards borrowing in India, we will have to borrow perhaps very heavily, if all the schemes undertaken by the Government of India are to be put into effect. We will require a lot of money for capital expenditure and besides this, from 1930 onwards we shall be required to pay off our loans for very large amounts. How are we going to get all this money? And where are we to get it from? I will tell the Honourable the Finance Member very frankly that we cannot get money if we are to create scarcity of money in the country. You have raised the bank rate to 8 per cent. and caused a great stringency in the money market. And the Honourable the Finance Member says he takes full responsibility for it. Has he realised the consequences of it? I mean it is quite right for you, by a mere stroke of the pen, to increase the bank rate to 8 per cent., but does the Government realise what hardship it will inflict on the people in general and on the industries which are already in the throes of depression, and what stringency it will create in the money market? If it is the Imperial Bank rate and not the Government rates, at least it ought to be left to the Governors of the Imperial Bank to decide for themselves as to what ought to be a reasonable rate at a certain time. Why should the Government take the initiative and force a high bank rate on the Bank when the Bank itself does not desire it? And who knows that in order to maintain the exchange, in order to effect a further contraction, the Imperial Bank rate may not be raised further. I warn the Government of the very bad consequences of such a policy and its effect on Government revenue and borrowings. That is not the way in which you are going to get money. You must protect trade and industries; you must



create confidence in the money market. If you want to raise money in India, you must create prosperity in the country, but on the contrary, if you go on increasing the bank rate and contracting currency, there is no hope either for a surplus budget or for borrowings in India.

I would ask the Honourable the Finance Member not to be deluded by the high rates of securities prevailing at present. If he would look into the figures, he would find that, in 1919, when money was flowing in this country like water, during the boom period, when the bank rate was only  $5\frac{1}{2}$  per cent., the  $3\frac{1}{2}$  per cent. security was quoted at about Rs. 60, and today when the bank rate is so high and there is a great scarcity of money, the securities have risen to Rs. 72. What is the explanation of this? Why is it that the securities in the boom period were quoted at a much lower figure than at present which is a period of depression? The explanation is very simple. In those days, people had confidence in industries, people got a greater return from industries. Therefore nobody wanted to touch Government securities, but today, on account of the financial policy of the Government, all the confidence in the industrial investments has been shaken, with the result that every investor who has got some money for investment is putting his money into Government securities instead of putting it into industries. That is the situation, and the cause of the depression is your policy of currency contraction.

### Currency Contraction

Sir Purshotamdas Thakurdas, in his minute of dissent attached to the Currency Commission Report, put forward figures based on official information that in the pre-war period, the usual expansion of the cur-

rency used to be about 20 crores a year. On this basis, we would expect an expansion of about 160 crores in 8 years. But, if we look into the figures from 1920 to 1928, we will find that, instead of any expansion, there has been, on the contrary, a net contraction of about 55 crores. I ask a simple question of the Honourable the Finance Member. Have our exports and imports, as compared with the pre-war period, increased in volume or not? Has our balance of trade, as compared with the pre-war times, shown an increase or not? The index figure stands higher, the trade has increased; but in spite of that, instead of having an expansion in currency, we have had about 55 crores of net contraction of currency during the last eight years; and this is the cause, the direct cause of the stringency of money and of the depression in trade. You have created a scarcity in the money market by contracting currency, and the consequence is the industries are dying. The industries are passing through a severe depression, and that also is reacting on the revenues of the Government and on the confidence of the people in industrial concerns. And this eventually will react on your own credit.

#### Depreciation of Franc

Now, I do not want to go into the currency controversy. I do not advocate a return to 1s. 4d., but what I want to point out is this: that the present seriousness of the situation has been forced upon the country by the action of the Government in contracting currency for the maintenance of the fictitious ratio. I ask the Honourable the Finance Member, when is he going to give up this ruinous policy? He was preaching to us a sermon on the evil consequences of inflation. I may be allowed to read out an extract from the Barclays



Review which at least shows that the consequences have not been so bad in France. The Review says:

'In certain respects progress was assisted by the depreciation of the franc, because in spite of the disadvantages which inflation brought in numerous directions, it helped to reduce the burden which would otherwise have fallen upon the industry as a result of the heavy capital cost of reconstruction. Inflation also assisted in reducing the real burden of the national debt and therefore of taxation, besides helping in a greater or lesser degree to keep down wages and other productive costs and in consequence, French prices at a low level in terms of gold. As a result, France's competitive power has been considerably developed, and between the end of 1921 and the spring of 1927, about 1 1/3 million foreign workers entered the country from various parts of Europe and elsewhere to satisfy the urgent demands for labour".

### A Serious Situation

Now, Sir, this is the situation which has been created there on account of the depreciation of exchange. What has happened on account of an **appreciation** of exchange in India we have already seen. I do not want to say anything more; but I want to draw the attention of this House to the seriousness of the situation. We have got to meet a deficit of about Rs. 7 or 8 crores towards the liability already incurred, i.e., arrears to be paid. We have also to raise huge loans to repay the old loans as well as for the capital expenditure. Now, I shall put this question to the Honourable the Finance Member. How are you going to meet the situation? Where are you going to get all this money? By taxation? I say "no". You can get money only by

creating confidence in trade and industry, by creating prosperity.

### Protecting our Interests

The Tariff Board made a very modest recommendation for the protection of the textile industry. What is the result? It has been turned down by the Government. 'The cotton industry is on the verge of death, and the Government have been simply keeping silent watching the spectacle and doing nothing. In great contrast to this, I am reminded of something I read the other day in the papers. Because the banana is not grown in Italy, Signor Mussolini has forbidden imports of bananas into his country. It so happened that an English lady, a tourist probably, was found entering the boundary of Italy from France with about half a dozen bananas. She was told either to eat them up or to send them back to France. Of course, the lady had common sense enough to choose the better alternative. All the same, Sir, the story makes it very clear how zealously Italy is protecting her own interests.

And if we compare that picture with the financial policy pursued in this country by our Government we feel a sort of despair. I again tell the Government that, unless they so plan their policy as to make the industries stand on their own legs, there is no hope of their getting more money either through loans or taxation. Any number of good years cannot help them, and therefore I would again suggest: make retrenchment, and grant protection. (Applause.)



#### IV

### INDIA BETWEEN TWO FIRES\*

Sir, from the speeches delivered during the general discussion on the Budget and on the Finance Bill, one thing is very clear, and it is this, that every speaker who spoke from this side of the House struck a note of warning emphasising the seriousness of the situation and telling the Finance Member definitely and firmly that if he had to approach this House with any proposal for fresh taxation, at any rate this side of the House will oppose it tooth and nail. Sir Purshotamdas Thakurdas very pertinently asked the Honourable Finance Member whether he had any data to produce to show that the country was not passing through as severe a depression as we on this side of the House thought, and if he had any figures to prove that the picture was not so dark as painted by some of us. I was not at all disappointed that the Honourable the Finance Member had no figures or data to produce because there were none and consequently like his predecessor he also had to form his judgment of the prosperity or otherwise of the country on the basis of the Railway Budget. Because there is no deficit in the Railway Budget, he has been trying to persuade himself to believe that things are not so dark as we on this side of the House suggest.

#### No Increase in Investment

I would place a few figures before the House which

\*Speech in the Indian Legislative Assembly on 19th March, 1929.

will go to show that things are much worse than the Honourable the Finance Member considers them to be. Let us take the figures of the registration of new joint stock companies in India during the last three years. We find that there has been practically no increase in the total capital of the joint stock companies. The total paid-up capital of the joint stock companies in India in 1924-25 stood at a figure of 266 crores, and in 1926-27 it stood at 267 crores—practically no increase. Compared with 1925-26 the total capital of the joint stock companies has rather decreased from 267 crores 79 lakhs to 267 crores 9 lakhs. Is that the proof of any prosperity in the country? The Honourable the Finance Member might point out that this was due to the world depression; and that the phenomenon was nothing peculiar to India. But, that is not a fact. If we compare the figures of the capital raised by the joint stock companies in England with that of India, we find that things are moving in quite a different direction there.

#### **England's Different Story**

The joint stock companies there were able to raise £218 million of capital in 1927, and £288 million capital in 1928. The year 1920, which was boom time, was the best period for industries, and if we except that year, namely 1920, we find that the capital raised by the joint stock companies in 1927-28 was the largest of any year from 1911 onwards. Further, I may read an extract from the speech of the Chairman of the Lloyd's Bank which he delivered at the last annual meeting of the Bank, from which it could be seen that England is not suffering from the same depression as we are suffering from in this country. He says in his speech that "the number of new accounts opened during the year show a net increase over last year by



more than 50,000", and he then goes on to say that, "Our acceptances are more than double the figure at which they appeared last year. This is an undoubted sign of increasing trade for this country, and it is perhaps partly caused by the higher rates ruling in the United States of America." This very clearly proves that England is not passing through the same depression as we are passing through here. I may point out to the Honourable the Finance Member that it is not Indian industries alone which are suffering from this depression peculiar to India, but the whole country, including the agricultural population, which consists of 75 per cent. of the total population, is passing through a very severe state of depression and poverty. And, as such, the matter requires special urgent and careful handling.

### Severe Depression

The very fact that, excepting jute and tea industries, which depend mainly on foreign customers, all other industries which have to depend more on their Indian customers are passing through a very severe state of depression, clearly goes to show that, not only the industries but the whole country is faring ill and passing through very critical times. The fact could not be disputed that the prosperity of an industry depends very largely on the prosperity of its customers, and the fact that only those industries which have to depend on the Indian buyer are in a state of severe depression conclusively proves that the purchasing power of the Indian masses has gone down immensely during the last few years. Apart from the fact that there has been a very serious fall in the imports of treasure, it has been calculated that the consumption of cloth, which used to stand at 18 yards per head in pre-war days, has

come down to 10 yards per head in 1926-27, although the inclination of the masses is to buy more cloth as compared with pre-war times. The purchasing power having gone down immensely, they are not in a position to buy even as much cloth as they used to buy in pre-war days. This should clearly convince the Honourable the Finance Member that the situation is very, very serious, and that if proper steps are not taken to restore the prosperity of the masses, if proper steps are not taken to deal with the situation, I am afraid all of us will come to grief.

### **Agriculturist Hard Hit**

The fact could no longer be disputed that, on account of depreciation in the value of agricultural products due to an appreciated rupee, the profit of the agriculturist has been reduced practically to nil. It cannot be disputed that if the agriculturist does not make sufficient profit in producing various kinds of raw products, the natural result will be that he will have to make retrenchment in various directions; he will have to make retrenchment in his requirements, in his necessities of life, and even in such things as fertilisers, better cattle and better agricultural implements which go to increase the production of the country. And the fact that the cultivator has not been able to realise sufficient value for his products has very largely affected his profits, and if I may point out, Sir, this is the secret why the purchasing power of the masses has gone down immensely and why the industries of this country are suffering so severely as a consequence thereof. The situation has become so alarming that India, which used to export wheat and rice in very large quantities has had to import wheat and rice during the last two



years. What is most disgraceful is that, in the very same year, India, while exporting wheat and rice through one port, was importing them through other ports.

The Honourable Member in charge of Railways is not here or I should have liked to have an explanation from him as to why it was necessary for the grower of wheat in the Punjab to export his product to be sold in the United Kingdom while the consumer in the United Provinces had to import wheat for his consumption from Australia.....

Mr. K. Ahmed: Because Government have no power of control over Providence.

Mr. Ghanshyam Das Birla: Surely, Sir, he should have been able to adjust the railway rates in such a manner as to make it possible for the consumer in the United Provinces to import wheat from the Punjab. I ask Government: who paid the freight for exporting wheat from the Punjab and importing wheat for the United Provinces? Of course, the Indian cultivator and the Indian consumer; and if the Government had taken care to adjust the railway rates in such a manner as to make it possible for the consumer in the United Provinces to import his wheat from the Punjab, so much money which India had to pay to the steamship companies would have been saved.

### **Restoration of Prosperity**

Now I ask the Honourable the Finance Member as to what proposal he has got to restore the prosperity of the country which has gone down immensely during the last few years. I want to make it definitely clear that in order to restore the prosperity of the industries, you will have to restore the prosperity of the agriculturist. Unless you increase his purchasing power,

unless you increase his profits, it is impossible for the Indian industries to prosper at all. Therefore, I would inquire of the Honourable the Finance Member as to what proposal he has got to place before the House by which he would increase the purchasing power of the masses and thus restore his prosperity and thereby the prosperity of the industries and eventually the prosperity of the Government finances.

Mr. K. Ahmed: The report of the Agricultural Commission.

Mr. Ghanshyam Das Birla: I think the Honourable Member would be well advised to be more discreet and keep silent. He is dabbling in a subject which he does not understand at all.

### Stop Deflation

In order to restore the prosperity of the agriculturist, Government may have to spend money on irrigation. They may have to spend money on improving the waterways of the country. They will have to make it possible for the cultivator to get loans at cheap rates, in order that he may spend more money on better implements of agriculture, on better cattle, and on fertilisers. But until the financial policy of the Government is so framed as to make it possible for the bankers or the sowcars to attract money freely, this programme of the provision of cheap money could not possibly be put into effect. Sir, I do not want to touch on the question of inflation or of deflation, but we are placed in such a vicious circle that, however much we may try to forget the question of inflation and deflation, unfortunately in the circumstances in which we are placed, it cannot be ignored. We are in such a vicious circle that if we want to remedy the depression of industry we have to face the



fact that the depression in the industries is due to the low purchasing power of the cultivator, and when we inquire into the causes of the low purchasing power of the cultivator we have to face the fact that it has been so on account of reduced profits, which are due to reduced prices, which again are due to the persistent policy of deflation. Therefore, Sir, until this policy of deflation is stopped, all these measures could not be adopted; they could be of no use; they could not be put into effect.

Mr. K. Ahmed: It is the capital.....

Mr. Ghanshyam Das Birla: I want to make it clear that I do not want the Honourable the Finance Member to launch on a policy of inflation; but what I want is this, that he ought to stop the policy of deflation which his predecessor pursued so persistently and give sufficient currency to the country for its ordinary needs. That much only I want, and I demand an assurance from the Government to this effect.

### Shortage of Capital?

The other day, the Honourable the Finance Member remarked in his speech that India was suffering not from the shortage of currency but from the shortage of capital. This is a view not shared by the mercantile community. I have a very interesting statement before me made by the President of the Lloyd's Bank in his annual speech to which I have already referred. He said that "the total amount of deposits received in that country largely exceeds the amount of our advances and no portion of our deposits at home is used for the purpose of making loans in India." That shows that the foreign exchange banks, at least Lloyd's Bank, receives more money in this country as deposits than it advances. This must mean

only one thing, and that is that the surplus of the money that they so received through their Indian branches is possibly remitted to England in order to finance English trade and commerce.

Sir Hugh Cocke (Bombay: European): Not necessarily.

Mr. Ghanshyam Das Birla: Now Sir, I should like to know where that money goes. If the exchange banks get more money in India through their Indian branches than what they advance to the Indian customer, surely they do not hoard, sink or bury the same. Surely they remit that money to England or to any other country where it could be invested with a better security and more profitably. That very clearly proves that it is the financial policy of the Government which is responsible for the diversion of the capital of India into such channels. What may be true of the Lloyd's Bank may be equally true of other banks, and therefore I should like to ask the Honourable the Finance Member to find out the cause of this diversion of Indian capital to other countries.

There may be a shortage of capital, but then that shortage has been created by the financial policy which the Government have been pursuing during the last so many years. But for the sake of argument, assuming that there is a shortage of capital in the country, may I ask the Government, Sir, why the huge funds at the disposal of the Secretary of State—I mean the Gold Standard Reserve and a part of the Paper Currency Reserve—are kept in England? About 60 crores of rupees are being invested out of these two Funds on short and also on long-term loans in England. May I ask the Honourable the Finance Member if, as he believes, there is a shortage of capital in the country, why does he keep



such a large amount of money in England? This is not a new demand. We have been pressing for so many years that a substantial portion of the reserve funds should be transferred to India, and taking into consideration the fact, as the Honourable the Finance Member himself believes, that we are suffering from a shortage of capital, I see no justification for keeping such a huge amount of money in England, and therefore I would ask the Honourable the Finance Member to take the earliest opportunity of transferring a substantial portion of it to India. Sir, I might be told that this large amount is kept there in order to maintain the exchange. That may be so, but I might reply that if we went into the trade figures of the last twenty-eight years, we should find that except on two occasions when we had abnormal causes for an adverse balance of trade, such as the fixation in recent times of exchange at 2s., the balance was never against India. It was always in our favour, and if we leave out abnormal times and abnormal causes, we find that, except in 1908, we never required to sell Reverse Councils\* in order to maintain the exchange. I submit that the contingency of having an adverse trade balance and that of having to resort to Reverse Councils is very very remote and I submit therefore that there is no justification for keeping such a huge amount in England, particularly when we are suffering here from a shortage of capital. I therefore request the Honourable the Finance Member to take the earliest opportunity of transferring a substantial portion of this amount to India.

Mr. K. Ahmed: You don't propose to throw out the Finance Bill?

\*Bills drawn on the Secretary of State in Council and payable in sterling.

### Bank Rates Elsewhere

Mr. Ghanshyam Das Birla: The Honourable the Finance Member suggested that he had to increase the Imperial Bank rate because of the increase in the rate of the Bank of England. He said that if we had not done that the result would have been an outflow of capital from India. Now, Sir, I wish to draw the attention of the Honourable the Finance Member to the bank rates of other countries. He would agree with me that many of the European countries are as closely connected with England and with the London money market as India is and we find that the Swedish bank rate is  $4\frac{1}{2}$  per cent., the rate of Denmark 5 per cent., of Switzerland  $3\frac{1}{2}$  per cent., of Belgium 4 per cent. and of France  $3\frac{1}{2}$  per cent., while the Imperial Bank rate of India has been put up to 8 per cent., and Heaven knows whether it will be put up to 9 per cent. or 10 per cent. I ask the Honourable the Finance Member whether he has not been unnecessarily alarmed and whether he will not take the earliest opportunity of bringing down the Bank rate lower. He knows very well what hardship it has inflicted on the Indian industries and the tightness which it has created in the Indian money market. Therefore I hope that, after considering all these facts—after considering that the other countries have not increased their bank rates,—he will realise that he was unnecessarily alarmed and that he will bring down the bank rate as early as possible. We are not passing now through a busy season. It is the slack season and therefore I do not see any justification for maintaining such a high rate.

### Meet The National Demand

In concluding my speech, I may just refer to the



very splendid, lucid and remarkable speech which my friend Sir Purshotamdas Thakurdas delivered on the floor of this House yesterday. It was not a random speech. It was a speech made with full deliberation. We merchants never like to be drawn into the vortex of politics because we know that the politics of this country are quite safe in the hands of its political leaders. But, the time has come when it should be conveyed to the Government in this country as well as to the British Government that we are not prepared to put up with the present system of the Government. We want to make it clear that we can no longer stand this pose of trusteeship and that, if there is to be a cordial relationship between the two countries, the role of friendship must be substituted for the pose of trusteeship. The speech was made in order to express the well-considered and definite opinion of the Indian mercantile community and it should be duly conveyed to His Majesty's Government in England that, if the national demand is not met in time, it will become impossible even for the Indian mercantile community to co-operate any more with the present system of Government.

## V

### "BLACK CLOUDS"\*

Sir, let me tell this House at the outset that I do not find myself in a position to congratulate the Finance Member on the Budget which he has presented. All I can do is to sympathise with him as much as a doctor can sympathise with a patient who is addicted to some poisonous drugs, but who is not prepared to take the treatment of an expert physician. I realise and it has been admitted on this side of the House, that the Finance Member has inherited a deadly legacy from his predecessor; but, that is no justification for his clinging to the old policy as a child clings to the bosom of its mother.

When I made my forecast at the annual session of the Federation,† I was rebuked by my friend the Finance Member as being an alarmist. I was dubbed a Jeremiah; in fact, I was given a tip by my friend Sir George Schuster that, following the American example in a similar situation, instead of promoting, as he said I was doing, a Black Clouds League, I ought to promote a Sunshine League, a Smilers' League. I had expected that, when I return to Delhi to take part in the Budget debate, I would find every Member on the Treasury Benches wearing a badge of the Sunshine League; but, Sir, I was very much dis-

\*Speech in the Indian Legislative Assembly on 5th March, 1930.

†Federation of Indian Chambers of Commerce and Industry.



appointed. The first seceder from his Sunshine League was the Honourable Sir George Rainy who applied for membership to the Black Clouds League when he was faced with a deficit Budget. Then the membership of the Black Clouds League began to swell. Finance Members of almost all the provinces were seen jostling one another at the door of the Black Clouds League as applicants for membership, and last but not least to join them is my friend the Honourable Sir George Schuster himself. This, shall I say, is the final blow to his pet scheme of a Sunshine League.

### False Optimism

But, if we have been right, and the Government of India have been wrong, if the Sunshine League has collapsed, that is no consolation to us. After all, whether it is due to our faults or to the faults of the Government of India, we are the people who must ultimately suffer. Therefore it is the duty of this House to pause and reflect whether this is the end of our troubles or only the beginning thereof. We ought very seriously to consider whether the hope of five crores which it is proposed to make in the pocket of the Indian taxpayer is going to relieve us of all our troubles. I am afraid this is why the beginning of our troubles, and that being so, the last thing which a Government ought to do is to impose new taxation. I do not want to play the role of a Jeremiah, but all the same, it is necessary for this House to know what the situation is. Five crores are going to be paid in the course of this year by the Indian taxpayer, and the payment of about seven or eight crores, the accrued liability on account of the Postal Certificates is simply being postponed. Let us now examine the

composition of the Paper Currency Reserves. There you have a load of ad hoc securities, and you have a silver holding which has immensely depreciated in value. If all the notes and the silver rupees were presented today to the Government of India to be exchanged into gold, I know, as well as the Honourable the Finance Member does, that he could not pay even nine pence per rupee in gold, to say nothing of 1s. 6d. the rate which he is artificially maintaining. I am not criticising the exchange. What I want to point out at this stage is this, that our financial position is very weak, and this House and the country should pause to reflect whether the solution which has been offered by the Finance Member is the correct solution.

Sir, I ask myself what a sound financier should have done under those circumstances, and whether Sir George Schuster has done it. Any new taxation may serve as a sort of patchwork, but it cannot create money. It merely transfers money from one pocket to another. What we require at this stage is not new taxation but creation of more money, creation of prosperity in the country, so that eventually the Budget may find itself squared automatically. Taxation is quite a good policy if our trouble is temporary, but ours is not a temporary trouble and it cannot be cured by taxation.

### Retrenchment Inquiry

The first thing wanted today is retrenchment, ruthless and drastic. I have been repeating for the last three years that the first thing that the Government should do, until we can see any sign of prosperity on the horizon, is retrenchment. I am afraid I cannot feel satisfied with the action which the Honourable the Finance Member has taken. He has appointed a



Retrenchment Officer. Now we all know the Retrenchment Officer cannot lay his hands on a policy which may be already prescribed. All he can do is to find out for himself whether, under the policy enunciated by the Government, he could make any retrenchment. He cannot have the courage to tell the Government, "Do this, and do not do that". This can only be done by an independent authority. It is up to this House to review the growth of expenditure from year to year and to have the pruning knife applied by a representative committee appointed for the purpose. I may ask the Government of India, where, in view of our slender financial resources, was the necessity to undertake new obligations every year. If you look at the net expenditure on civil administration, you find that in 1923-24 it stood at 8.65 crores, and it is now 12.20 crores, an increase of about 3½ crores. We have started civil aviation, and in spite of a very bad year, we have gone in for broadcasting. All these things are very good for a country which is prosperous, but for India, where millions are starving, this is a sheer luxury. So far as criticisms are concerned, we have concentrated on military expenditure, and rightly too. I believe there is great scope for retrenchment there, but what I want to add is that in almost every Department of the Government, if an independent authority made the investigation, he would find that there is equally wide room for retrenchment. Under the circumstances, I am against all new taxation.

I do not propose today, in my speech, to deal with the proposed taxation on its merits. I hope, Sir with your permission, I shall have opportunities of doing that later on. Nor, do I wish to say anything about Imperial Preference today. My views are too

well known. I am strongly opposed to any policy of Imperial Preference at this stage, and I hope the Government will realise the strength of opinion held on this side of the House, and will modify their views. All I want to do at this stage is to draw the attention of this House to the seriousness of the situation, and to the need of retrenchment and a policy of construction which may eventually lead to prosperity. The Budget is lacking in these two things. There is neither retrenchment, nor any constructive scheme and I cannot help condemning this Budget.

### Fall in Consumption

Figures were produced by Sir George Schuster at the annual session of the Federation to show that things were not as bad as they were painted. I think, Sir, with your permission, I may give for the information of this House a few figures to show that the purchasing power of the masses is very low and there is no improvement worth the name as compared with the pre-war period. In some respects, indeed, we are in a worse position. Let us take first of all the consumption of cloth. In 1913-14, the annual consumption per capita stood at 16.28 yards. In 1928-29 it was 14.9 yards. Even if we take the average of the three years ending 1914-15, it stood at 15.48 and if we take the consumption on the basis of a population of 320 million the average for 1926-27 to 1928-29 comes to 15.97 and as I am sure the population has increased, it is not much higher than that at present. Then take the consumption of sugar. In 1912-13 the annual consumption per capita was 23 pounds. It is not higher than that today. The figure which I have quoted for 1912-13 is for the whole of India, while the figure for 1926-27 which is available is only for British India,



which shows the consumption at 27-28 pounds, and if we deduced from it the figure for the whole of India it might be just about the same. Then, Sir George Schuster maintained that the consumption of food-stuffs has much increased. He cited figures of consumption of rice, but he very conveniently forgot to take into account the consumption of other foodgrains. If we take the consumption of cereals such as wheat, rice and minor foodgrains, we find that, while on a rough estimate in 1914-15 it stood at 365 pounds per capita, for 1923-24 to 1927-28 it was 360 pounds, a reduction of 5 pounds per head per annum.

### Reasons for Hoarding

Then, Sir, much has been made of the imports of treasure. It was maintained by Sir George Schuster, and by other high authorities, that, since 1900, we have imported gold to the extent of 400 million pounds, and therefore India must be rich. Now, if we are to rely on that argument, the logical conclusion to which we should come about England would be that England is a poorer country than India, because her total gold resources at present amount to only 150 million pounds. What is, after all, our consumption per year? The net private imports of treasure were for the pre-war period about Rs. 1-2-4 per head. It is now Rs. 1-3-8 per head. Just consider for a moment every man consuming gold and silver to the extent of about Rs. 1-4-0 per annum and it being maintained that we are a very rich country. Sir, it is conveniently forgotten that, what is called hoarding in India, is not actual hoarding in the sense which it usually bears, but that it is consumption and investment both combined, and it is so because of want of banking facilities in this country.

If we compare the total deposits held by banks in England, we shall find that, against a circulation of total notes and coin of 360 million, the deposits held by banks amount to 2,000 million sterling. That is, the deposit is five times more than the circulation of currency. And what do we find in India? The Honourable the Finance Member may correct me, but I think the total currency amounts to about 500 crores, if we take into account all the rupee coins which are in circulation; and the deposits held by banks are about 200 crores. This means that, while the deposits held in banks in India are about 40 per cent. of the total circulation, in England the deposits are about 5 times more than the circulation. This gives the reason for the system of hoarding, which is so much criticised by our European friends, both official and non-official. When we have more banks in this country and better facilities for investment, the tendency of this country to consume gold must necessarily decrease. But if the Government want that responsible people in this country at this stage should discourage people against buying more gold and encourage them to put their money in Government securities, they are bound to be disappointed. And I will give you the reason why. Let us ask for the amount of gold which was purchased from time to time by the Government of India and the way in which they spent it. If we take the account from 1900 to 1929, we shall find that gold resources to the extent of 140 crores were frittered away by the Government for maintaining the exchange first at 1s. 4d., then at 2s. and afterwards at 1s. 6d. Now I do not know how the Government can expect the Indian people to deposit their gold with the Government of India in exchange for Government securities.



I want to make it clear that, until we get freedom, until we get full control over the fiscal policy of the Government, and until we are masters in our own house, I would be the last person to dissuade the Indian people from buying more gold or encourage them to invest money in Postal Certificates and such other things. I say this on account of the bitter experience which we have had in the past. Everybody knows how the Government dissipated our resources. I would like to ask the Government what guarantee there is that, if once the people of this country decided to hand over their gold to the Government of India, it would not be misused, as it has been misused in the past. I would therefore be very much chary of handing over my gold deposits to the Government until I feel certain that I have got control over their policy, and until I know that the Government are not going to abuse their powers, as they have done in the past. Of the many "stupid" things which the Indian masses are represented to have done, there is one at least for which I admire their instinct, and which I think it was quite sensible on their part to do, and that was investing their savings in the precious metals.

### **Ruinous Policy**

I find that the Honourable the Finance Member is in agreement with us at least on one point, and that is, that he realises the necessity of increasing the productivity of the country. But mere sympathy will not do. What we want is some concrete scheme, and I am very much disappointed that I did not find any concrete scheme in his Budget speech in that direction. I will go further and tell this House that it is impossible to launch any constructive measures under the present financial policy of the Government.

Let me give an illustration. Suppose we decided today that the Gold Standard Reserve which amounts to about 60 crores should be merged in the Paper Currency Reserve, and that about 60 crores of silver rupees should be taken out of the Paper Currency Reserve and given in loans to the cultivator for increasing his productivity. What will be the effect? The moment you put your money in circulation, the exchange begins to go down. And my friend, the Honourable the Finance Member, cannot sacrifice his 1s. 6d. ratio. He must maintain the exchange at 1s. 6d. at any cost. Any constructive scheme must require money, whether by way of subsidy or loan, and the moment we begin to put money into circulation, the money market weakens, the exchange weakens, and the interest rate goes down. This is the difficulty. No matter whither we go, we cannot get out of our way the stumbling block of the ratio which has become a part of the policy of the Government. Therefore, it is impossible to put forward any constructive scheme until the Government of India are prepared to forget that they have got to do any such thing as the maintenance of exchange at 1s. 6d.

However, the duty of this House is quite clear. We know that we have not got any responsibility in this Government; we know that we have got no control over this Government; yet we have got our duty towards the country, and all that we can do is to draw the attention of the country to it, and agitate for that. I wish to warn the Government again, as I have done in the past, against the disastrous consequences of the present policy. Although I am not at all happy that our predictions have come out to be true, all the same I think it is the clear duty of every Member on this side of the House to draw



attention to the serious situation through which we are passing. I would like to warn the Government again that this is not the end of the trouble; it is only the beginning. And if we want to save ourselves from the dire consequences, the only thing we can do and should do is to compel the Government to carry out a policy of ruthless retrenchment. Until that is done, I am afraid it will be difficult to find ourselves in a better position.

## VI

### SOME IMPORT DUTIES\*

Sir, in the present atmosphere in the country as well as in this House when Government have got little regard for public opinion, I would dread to say anything about retrenchment. I have been pressing this point for the last three years, and I feel that if I press it further, I may be called by my Honourable friend the Finance Member a monomaniac. The only consolation, Sir, is that, even the European Group has realised the consequences of the extravagant policy of the Government and has joined me in pressing that economy should be effected in all departments of the Government. The proposal of my Honourable friend, Sir Hari Singh Gour, to retrench five per cent. all round may not be practicable, but I do not think it should have been ridiculed. It is a method which has been adopted in business houses from time to time, and even if it may not be a practical proposition, it should not be without value as offering practical guidance. I hope, Sir, Government will realise, if not today at least some day, the dire consequence of their extravagant policy, though the sooner they realise it the better in the interest of the tax-payer. I propose, however, to confine my remarks entirely to the merits or otherwise of the proposed new taxation.

\*Speech in the Indian Legislative Assembly on 19th March, 1930.



### Increased Duty on Sugar

I welcome the increased taxation on sugar on the ground that it will afford protection to the producer in the country. It is, however, a surprise to me that the consumer's interest, for which Government have all along professed such solicitude, has been deliberately ignored. We know why it has been so. We know that, in spite of an already heavy duty on sugar, a further tax on imports has been imposed. All the same, to my mind it should be welcome to every protectionist who feels that to protect an indigenous industry is to make an investment in the interest of the consumer. I, however, feel that with the same burden which we are proposing to impose on the consumer, we could have protected two industries, and more adequately; for instance, if, instead of putting up the existing duties on sugar which are already heavy, a further burden, say, to the extent of 5 or 10 per cent. had been imposed on the import of piece-goods, we could have, with the same burden on the general consumer, given protection and adequate protection to the two industries. But we know why in one case a 100 per cent. duty has been imposed without any regard to the interest of the consumer, and in the other case, when the Indian mills wanted only a 20 per cent. import duty, Government said that, in the interest of the consumer, they could not agree to this proposal. We know why this is so. In the one case, the competitor is not an Englishman; he is a Dutchman in Java and therefore the question of the consumer could not arise. In the other case, it is an Englishman; the imports are from Lancashire, and when it is a question of protecting our industries, whose interests clash with those of English manu-

facturers, the question of the interest of the consumer comes to the forefront! However, being a protectionist myself, I welcome the increased import duty on sugar.

### Kerosene Oil

Coming to the question of the increased excise duty on kerosene oil and reduction in the import duty, I again welcome it. My only complaint is that both the duties were not equalised. My English friends sitting opposite may inquire why I grudge such a meagre protection of 9 pies per gallon to the oil producer, when I plead for protection for all other industries. Let me make it clear that protection is nothing like a religious creed; it is a philosophy of bread and butter. If we are to impose a tax on our own consumer, if we are to put a burden on the Indian taxpayer, we can do so with justification only in the interest of the truly Indian industries and not in the interest of those industries in which Indians have no interest. The oil industries in Burma have been paying fat dividends and they do not require any protection. The companies are not registered in India, the management is not in the hands of Indians, and that being so, I would be the last person to ask Government to impose any taxation which will not benefit real Indian industries. It was on these principles that this House supported Mr. Haji's Bill\*. If the Burma Oil Company can be called an Indian concern, or if the Burma producers of oil can be called Indian concerns, I see no reason why the Peninsular and Oriental and other shipping concerns controlled by non-Indians should not be called Indian concerns. Sir, the implications are clear. We want to protect

\*Seeking reservation of coastal shipping to national interests.



our own industries. If we have to pay for the protection, we should protect only those industries by which Indians are benefited and in which they are interested, and it is on that principle that we supported Mr. Haji's Bill, and it is on that principle that I suggest that the import duty and the excise duty on kerosene should be equalised. The Indian Chamber of Commerce in Calcutta suggested to the Finance Member that the duties should be equalised at two annas per gallon. They said that this will not only give substantial relief to the consumer but also add very considerably to the revenues of Government. I congratulate my Honourable friend the Finance Member on his acceptance, although only partial, of our suggestion. We hope that next year, if it suits his financial policy, he will fully accept our proposal and will see his way to equalise the excise as well as the import duties so that, while on the one hand, he would be able to give relief to the consumer, he would, on the other hand, be able to add to the revenues of the Government of India.

### **Silver Imports**

Coming to the proposal of the duty on imports of silver, let me make it clear that I am strongly opposed to it, and I shall give my reasons for it. What we have objected to and what we have agitated against is the sale of silver by Government. We have maintained that, on account of heavy sales by the Government of India, the savings of the masses have been very much affected by depreciation of the value of silver; and we still maintain that. Our second objection was that if silver had to be sold, it must be replaced preferably by gold, or if this was not possible, by gold securities. Now, the Government of India

maintain that, in the first place, the fall is not due to the sales by Government but to sales by China. In fact, in reply to a question put by my Honourable friend Sir Purshotamdas Thakurdas the Finance Member stated that the fall in the price of silver was due to heavy sales by China and Indo-China. First of all, I should like to tell this House that this was a most misleading statement. Ordinarily, the statements made by my Honourable friend the Finance Member are very accurate, frank and candid. But I must confess that in this case, I shall not say deliberately, but quite unwillingly, he misled the House. I will put figures before this House which will show that since 1926, so far as I could see, not one ounce of silver has been sold by China. On the contrary, China took:

In 1927 .. ..	85 million fine ounces.
„ 1928 .. ..	124 „ „
„ 1929 .. ..	137 „ „

In fact, China's consumption has been increasing from year to year. The production, so far as the United States are concerned, has been practically stationary. The following are the figures of production in million fine ounces in different countries:

	1927	1928	1929
United States .. ..	60	58	61
Mexico .. ..	104	108	105
Canada .. ..	22	21	22

You can see from these figures that the production from 1927 to 1929 in almost all the countries has been stationary. So far as consumption is concerned, India has been practically taking the same quantity. She took 90 million fine ounces in 1927, 89 million ounces in 1928, and 82 million ounces in 1929. As I have shown to you, Sir, the consumption in China has been increasing. The logical inference is that the actual cause



of the fall in the price of silver was the heavy sales by the Government of India and we strongly protested that these sales should be stopped because they have been very largely affecting the savings of the masses. That was our proposal No. 1. The second proposal was .....

### A "Misleading Statement"

The Honourable Sir George Schuster (Finance Member): Sir, I must interrupt my Honourable friend if he is going to say no more on the subject of our sales. He has accused me, "unwillingly" he said, of making a statement which has misled the House. He said he would give the figures to show that my statement had been misleading. I maintain that he gave no figures to show that my statement was misleading. My statement was to the effect that the recent fall in price had been mainly due to sales of silver by holders in Indo-China and China. I do not know whether my Honourable friend was present when I made a supplementary statement the other day—I think it was in answer to one of his own questions—in which I explained the position. I pointed out, first of all that, according to my information, Indo-China had actually sold 50 million ounces during the last three months as compared with the total sales of 67 million ounces by the Government of India during a period of 3½ years. As regards China, I freely admit it that on balance in the last two years China had imported more silver than her average consumption in the previous five years. But in my answer to my Honourable friend, Sir Purshotamdas Thakurdas, I was referring to the causes for the recent fall in the price of silver and my information was that one of the largest contributory factors was the position in China—first, the knowledge that very large stocks of silver far in excess of the normal posi-

tion were held in Shanghai; secondly, large operations in the market by Chinese interests. Now, Sir, my Honourable friend is perfectly aware that the influences which affect the price of silver are not necessarily physical transfers of actual silver, but operations in the market. He knows perfectly well that the price of silver is fixed very largely by transactions from day to day in the London market. Now, if China has imported, let us say, 130 million ounces of silver and holds those stocks physically in Shanghai or anywhere else, the figures which he has given us will show those imports—and he will be able to say that China has imported silver. But he knows quite well, that against those stocks one may go into the market in London and sell millions of ounces "forward" and smash the price to the House, I was acting on reports which I have reany other place in China. In the information I gave to the House, I was acting on reports which I have received from the London market as to such operations and I maintain, Sir, that the information which I gave was perfectly correct. I do not wish to withdraw a word of it.

Mr. Ghanshyam Das Birla: I can see that the Honourable the Finance Member, while willing to modify his statement in spirit, will not like to withdraw a word. But this does not alter the facts. The exact words he used in reply to the question of my Honourable friend, Sir Purshotamdas Thakurdas, were "Government are informed that the primary influences causing the drop in the price of silver during the last year were heavy sales by China and Indo-China". Now, Sir, I have put figures before the House which will show to you that China has been taking more silver than she was taking before. As I told you, Sir, In 1927, she took 85 million ounces and in 1929 she took



137 million ounces. When does the speculator come in? If he sells short he must cover eventually and put up the market. Speculators cannot produce supplies. I must say the reply was misleading.

Sir Purshotamdas Thakurdas (Indian Merchants' Chamber: Indian Commerce): Perhaps it will help the Honourable Member if I suggest to him that the difference between what he wishes to impress on the House and what the Honourable the Finance Member is trying to explain is this. The Honourable the Finance Member, replying to my question, gave the impression as if the Government of China had sold silver. What the Honourable Member, Mr. Ghanshyam Das Birla, is trying to make out is that the Government of China never sold. It is possible that speculators in China may have sold. The parallel between the sales by the Government of India and the sales by speculators in China, therefore, is not correct. If this is what my Honourable friend is trying to bring out, perhaps the Honourable the Finance Member will agree with him.

Mr. Ghanshyam Das Birla: I do not think it is a question, so far as I am concerned, of mere words. But the impression which this House got was that the fall in price was due to heavy sales by China. Now, either these heavy sales were subsequently covered and therefore could not have affected the price, or the goods were delivered which is not a fact.

Sir Purshotamdas Thakurdas: Sales by the Government of China?

Mr. Ghanshyam Das Birla: He did not say that in his reply.

An Honourable Member: Indo-China.

Sir Purshotamdas Thakurdas: Indo-China does not come into the picture at all. The question is about who is selling from China.

Mr. Ghanshyam Das Birla: I have placed the figures before the House, and if the Honourable the Finance Member agrees with me that he did not mean "actual exports" from China, I do not think there is much difference on that point. And therefore it goes only to confirm what I maintain, that the fall in price of silver has been primarily due to sales by Government, and what we wanted to press was that Government should not make these sales at these rates or that at least they should announce their silver policy to the effect that they were not going to sell silver as long as low prices prevailed. That was our contention. I do not know how the imposition of the duty is going to meet this point. My Honourable friend the Finance Member will agree with me that since the imposition of the duty on silver, the world price of silver has fallen further by about 1 to 1½d. and if that is so, surely the duty imposed is not going to help the holders of silver in India. The prices may have been artificially put up in India, but it is the world price which counts. And we should not forget that India imports a very large quantity of silver every year, and that being so, the money going into the pocket of the Government of India through the taxation imposed comes only out of the pocket of the Indian consumer. I do not know how this duty on silver is going to help the Indian consumer or the Indian holder. So far as the world prices are concerned, they have been further depreciated by the imposition of the silver duty and therefore I strongly oppose this new taxation which, to my mind, is neither calculated to help the Indian consumer nor the Indian investor who has invested his savings in silver.

Another point is that the Honourable the Finance Member, in his reply, again to Sir Purshotamdas



Thakurdas, stated that the reason for selling silver was that he wanted to replace it by gold, and that as the silver earns no interest, if it is sold and converted into sterling securities, they earn interest and that is to the advantage of the public. Now I would not mind if silver has to be sold provided it is replaced by gold. But there again we have been misled. Let us examine the figures of our gold securities and see whether the Government has been able to replace the holdings of silver by gold securities. On the 31st March, 1926, the total holdings of the sterling securities in the Paper Currency Reserve of the Government of India amounted to 29 crores. That was before the Government started selling silver, and what is the position, Sir, today? On 22nd February, 1930, our total holding of gold securities had come down to Rs. 2 crores 93 lakhs; that means a reduction from Rs. 29 crores to Rs. 2 crores 93 lakhs. On the one hand, on account of our heavy sales we have depreciated the value of silver; on the other hand, we have not replaced it by gold. On the contrary, our gold holdings have been much dissipated during the last three years. I maintain that silver has been sold, and probably the policy of the Government still is to sell silver, for the purpose of putting funds at the disposal of the Secretary of State or for the purpose of contracting money; and that being so, I strongly oppose that policy. I also maintain that the imposition of a duty is not at all going to help us but is likely to put a further 2 crores of rupees into the pocket of the Government of India after withdrawing it from the pocket of the Indian consumer of silver.

My second objection to the duty on silver is that, just as salt is mostly consumed by the poor man, so too is silver. It is for the poor an article of consump-

tion and investment both, and therefore this duty must come out of the pockets of the masses. I do not say that the tax should under no circumstances fall on the poor man, but I would try other expedients before touching these two sources of revenue, salt and silver; I should leave them intact as a last resort.

### **An Under-estimate**

My third objection to this duty is that the estimated revenue which has been mentioned by the Honourable the Finance Member is an under-estimate. My Honourable friend Sir Purshotamdas Thakurdas has already pointed out in his speech that it will bring in probably more than Rs. 2 crores instead of one crore as estimated by the Honourable the Finance Member. Probably, the Honourable the Finance Member has in mind that if there is a surplus at the end of the season, he would like to make a gift of it to the provinces in some directions or on some conditions, or probably he will put the surplus at the disposal of some department or committee to be spent for constructive purposes in the provinces. Now that is not a bad idea, but I am afraid this must inevitably interfere with the fiscal autonomy of the provinces. The complaint is being made from time to time that the Government of India exercise undue interference in purely provincial matters and now when we are talking of provincial autonomy and the residuary powers being left to the provinces, I think such a proposition must seriously clash with the fiscal autonomy of the provinces. We can well imagine the results of the Government of India having at their disposal funds and telling the provinces, "Well, if you agree to certain conditions, we will pay you so much; if you do not agree to those conditions, we will not



pay". In such an advantageous position, the Government of India must be able to exercise a very undue influence, and therefore I would be the last person to encourage such a policy. I think that we could give relief to the provinces in some directions. For instance, we could allow the provinces to collect some kinds of taxes which are being collected at present by the Central Government, and thus allot them quite different spheres. On the other hand, what we could do is, that if we find at the end of the season a surplus in the Budget, we might remit taxation in some direction, for instance, the tax on salt. But I would be the last person to recommend that the Government of India, with funds at their disposal, should dictate a policy of the provinces and come into clash with their fiscal autonomy.

### Disappointment

Before concluding, I should like to join with my friend Sir Purshotamdas Thakurdas in the congratulations which he offered to the Finance Member for accepting his suggestions about imposing duties on silver thread and silver wire. In this connection, as has been very appropriately said, there has been a distinct change from the past in the attitude of the Government of India. But while I join with my friend Sir Purshotamdas Thakurdas in congratulating the Finance Member, I must confess that, if my satisfaction is great, my dissatisfaction is greater still. It is all right accepting a few suggestions here and there, but that is really very poor consolation. We find ourselves today being confronted with a situation in which a principle is sought to be imposed on us for the first time in the history of India, that is, the principle of "Imperial Preference". The Government of

India know very well that the Opposition is not in a majority; it is in a minority. They know that it is very easy in the present condition of the Assembly to carry this proposal through, although they realise that, so far as the country is concerned, it is uncompromisingly opposed to this principle. And having regard to the fact that this proposal was very strenuously opposed in 1903 by the late Lord Curzon, it comes as a painful surprise that the Government of India under the present circumstances, when the political situation is so unsettled, should think it desirable to impose on the country a principle which was opposed as far back as 1903. Therefore, it is no consolation to find that the Government is accepting a comma here and a semi-colon there. So far as the question of a vital principle is concerned, we find that the Government remains what it was and is determined to impose a principle we have been strenuously opposing for the last so many years. I must therefore confess that I do not feel as enthusiastic in offering my congratulations to the Treasury Benches as my friend Sir Purshotamdas Thakurdas feels.

But, if we are disappointed, probably it is our own fault. We entertain high hopes; we felt, when the Finance Member introduced his Budget last year that we were to expect from him unalloyed justice so far as the economic interests of India are concerned, and now, this introduction of Imperial Preference has made it more than clear that, whatever may be the personality of any particular Member, we cannot get full justice from this Government. The only solution is the grant of Dominion Status, and until we get that, we should not expect full and unalloyed justice from the Government of India. I hope, before the Honourable the Finance Member leaves India, I shall have



the pleasure with good reason of expressing my hearty congratulations for the services which he may have rendered. And none will be happier than myself to do it. But, that is, Sir, a pious hope at present the fulfilment of which is a matter resting entirely with the Honourable the Finance Member himself.

## VII

### RESERVATIONS AND SAFEGUARDS\*

My Lord, I represent in this Conference along with my two colleagues, Sir Purshotamdas Thakurdas and Mr. Jamal Muhammad, Indian commerce, trade and industry.

The Federation of Indian Chambers of Commerce and Industry which I have the honour to represent here, is an organisation to which nearly forty-five commercial bodies from all parts of India are affiliated. We have got the entire coal trade affiliated in our Federation. We have got the entire Indian insurance business affiliated to our Federation. We have got the entire shipping trade so far as it is in the hands of Indians, affiliated to our Federation. The tea trade, so far as it is in the hands of Indians, is affiliated to us. The Ahmedabad cotton mills, the Punjab cotton mills, the Bengal cotton mills, and a good many of the Bombay cotton mills are affiliated to the Federation. The same is true of the Indian jute trade, the bullion trade, and Indian banking. Perhaps, besides the Congress Delegation, ours is the only Delegation which is properly elected by representative bodies and we have come here with a certain mandate. The views, therefore, which I may express here, may be taken as the views of the Indian mercantile community.

\*Speech at the Plenary Session of the Second Round Table Conference in London, on 30th November, 1931, Lord Sankey presiding.



When at the conclusion of the last Round Table Conference, the Prime Minister made his famous declaration, we had the privilege of considering it and at that time we felt that responsibility at the Centre, as enunciated at the last Round Table Conference, was hedged in by so many considerations, so many reservations and safeguards that it would not lead us to the goal which we had in view. But our misgivings were very much allayed when the famous Pact was concluded between Mahatma Gandhi and Lord Irwin, and it was definitely made clear that all the safeguards and reservations were to be in the interest of India. Having this prospect before us we came here with reasonable hopes of finding a satisfactory solution of the constitutional problem. We came here with the determination to do our best; we came here if necessary to make compromises, and to reconcile our conflicting views. We have been working here for the last nine weeks, and it is time that we should frankly state what we feel about our deliberations so far.

If I may say so frankly, we are not at all satisfied with what has taken place here. It has been stated by some of my colleagues here that the Round Table Conference has been a success. I should not be fair to myself and my colleagues if I did not say that we do not take the same view of our deliberations. Let me put before you, Sir, in a few words what we feel. For the first six weeks we had no discussion on the essentials. We came here to discuss the reservations and such safeguards as may be demonstrated to be in the interest of India; and for six weeks we did not have a whisper of discussion on the safeguards. Then we had some half-hearted discussion, and, if I may put it so the net result has been that, far from making any advance on the conclusions arrived at the last

Round Table Conference, we have receded to the region of the Simon Report or the Government of India Despatch. After all, we have to judge of our success or failure from the reports which have been presented to this Conference, and I submit that the reports do not warrant any optimistic view.

### **Control Over Finance**

I will confess that so far as the questions of military and external relations are concerned, I do not propose to touch them because they are beyond me; but if I may briefly analyse the reports, particularly the report dealing with financial safeguards, I may say that there is not a shadow of control proposed to be given to the future Indian Government in the sphere of finance. Let me place before you in brief a picture of the present Finance Department of the Government of India. What is it that the Finance Department at present does? It controls the currency and exchange, and it also controls the revenue and expenditure of the Government. The Budget of the Government of India, excluding Railway finance, amounts to nearly 90 crores. Now let us analyse it and see what amount of control, if any, we are getting on the finance of India. I would start first of all with the Reserve Bank and the control of currency and exchange; but before I do so I may also point out that there is another department of the Government of India which is called the Commerce Department and which controls the Indian Railways. The Budget of the Indian Railways amounts to nearly 40 crores.

Mr. Joshi: 100 Crores.

Mr. Birla: I mean the net budget. I am not talking of the gross budget. It is 40 crores. Now, Sir, that is a very important department; and when we



talk of financial control with safeguards, the natural inference which one is to draw is that the Commerce Department will be transferred to popular control without any safeguards; but I doubt whether that is so. We have not at any length discussed the position of the Indian Railways, but a small paragraph has been put in on page 19 of the Federal Structure Committee's Report of the last Round Table Conference where it is stated that "in this connection the sub-committee took notice of the proposal that a statutory railway authority should be established, and are of opinion that this should be done if after expert examination this course seems to be desirable." Nothing is mentioned as to whether this Statutory Board is to be constituted by the Federal Legislature or by any other authority. Nothing has been mentioned as to who is going to control the future policy of the proposed Statutory Board. This is a very important department, and I regret to note that, in spite of the fact that the matter was brought to the notice of the Lord Chancellor by my colleague, Sir Purshotamdas Thakurdas, in the Federal Structure Committee, no notice was taken of it, and a department which has control of 40 crores (net), or of about 100 crores (gross), has still been left untouched, with its functions and policy undefined. Therefore, I cannot say whether it is the desire of this Conference that this department should be entirely put under the control of a popular minister, or if there are going to be certain reservations even in regard to this department.

### Currency & Exchange

Going back to the Finance Department as it is constituted at present, let us see what reservations or safeguards have been proposed. I will take up first

of all the question of currency and exchange. It is proposed that a Reserve Bank should be established to control day-to-day transactions so far as they concern currency and exchange, but, as regards the power of amending the Indian Currency Act, it is still proposed that the matter should be left with the Governor-General. I shall read this paragraph:—

"With the same object again provision should be made requiring the Governor-General's previous sanction to the introduction of a bill to amend the Paper Currency and Coinage Act, on the lines of section 67 of the Government of India Act."

Thus so far as currency and exchange are concerned, they are not to be entirely transferred to popular control. The Reserve Bank would be there and it would be a creation of the Federal Legislature, but the fundamental powers so far as the question of exchange policy is concerned will still rest with the Governor-General.

Then we come to the general Budget, that is, the revenue and expenditure, which, as I said, amounts to 90 crores. Well, the finance of the army, it is proposed, should be controlled by the Crown, and that takes away 47 crores. Then there is the question of debt services, and that amounts to 15 crores which is again to be reserved to the Crown. Then there is the question of pensions and other things amounting to 10 crores, and that again is reserved for the Crown. Out of a budget of 90 crores, 72 crores or even more is to be reserved to the Crown. Out of the total functions of the Finance Department, currency and exchange is to be controlled by the Governor-General. Out of a budget of 90 crores, 72 crores are to be controlled by the Governor-General. May I ask, Sir, what is left after that?



### Mortgage of Revenues

I was not at all surprised when I found that wide powers were proposed to be given to the Governor-General, the powers with regard to intervention in budgetary arrangements given in paragraph 18 and certain powers given in paragraph 14; because, when you mortgage 80 per cent of your revenue, you must give powers of that sort. When my esteemed friend Sir Tej Bahadur Sapru was joining issue with Lord Reading on the question of certification, I could not help feeling that he was not looking at the facts squarely; I felt that Lord Reading was more logical; because, if you hand over 80 per cent of your revenues to the Crown, how could you insist that safeguards should be less rigid? I maintain, Sir, that as long as 80 per cent of our revenue is mortgaged there is no way of avoiding these safeguards. Therefore the financial control could never be effective whether it is today or twenty years hence or even a hundred years hence so long as this position is maintained. I maintain that until you reduce this mortgage the financial control will never be effective. If we want to have control over our finances let us first of all deal with the basis on which these safeguards are built. Let us reduce the mortgage first and then discuss safeguards. Safeguards then probably would be tolerable even if they are rigid, but as the position stands at present, and with the proposals before us of reserving 70 crores out of 90 crores to the Crown, I say that even if the safeguards are relaxed it is not possible to get any effective control over finance. We must see things as they are and not deceive ourselves into thinking that by creating an Advisory Council here or by doing something else there we are going to get anything of the kind we desire. Therefore let us first of all see

whether we can or cannot reduce the mortgage.

I maintain that with sincerity and good-will it is possible to reduce these heavy charges. As briefly as possible, Sir, I propose to suggest how that could be done. It is possible, as I have said, only if there is good-will, if there is a genuine desire to come to some honourable settlement. If there is no desire and no good-will then the task becomes impossible. But in any case I think it my duty to lay before you my views in this connection.

### **Military Expenditure**

Let us take first of all our military charges. In 1913 they amounted to 33 crores. They went up to 59 crores and now they at about 47 crores. The Simon Commission stated that comparing the figures of 1913 with those of 1928 the increase was 100 per cent. Military expenditure in India in 1928 as compared with 1913 represented an increase or something like 100 per cent. Now, Sir, what has been the increase in other countries? These are not my figures. The figures have been compiled by the Simon Commission and I am only quoting them. In the Dominions the increase was only 33 per cent. In Great Britain the increase has been 48 per cent. Would you not admit, Sir, that this increase in India is simply monstrous? What is the reason for this? Prices have not risen since 1913. We have come back to the same level. It is quite correct that there was an increase in prices in the interim period but now the level is more or less the same as in 1913. No one can suggest that the danger to the peace of India has been in any way aggravated since 1913. I should say that with the invention of new weapons, with aerial warfare, with the growing mechanisation of the army, military ex-



penditure should have gone down. It is impossible for any one to maintain that such an increase is at all justified.

### Scope for Reduction

I am a layman and cannot analyse in detail where the army expenditure should be reduced but as a layman and a man with common-sense I can at least say this much that there is no justification for any increase above the figure at which it stood in 1913, which was 32 crores. I say, Sir, that with genuine desire and good-will it is possible to bring down the army expenditure at least to the level of 1913. Then the Simon Commission said that it is not fair that all the military expenditure should be charged to the Indian revenues. I agree. I wish that the Prime Minister had been in the chair just now because this used to be his opinion also. In fact he went to the length of saying that 90 per cent of the Indian Military expenditure should be charged to the Imperial revenues. I would be a little modest. He said 90 per cent and I will be satisfied with less, but I think no one can dispute the proposition that a substantial portion of our military charges are for Imperial purposes and should not be debited to the Indian revenue. Now, Sir, I think all will agree that it is possible to bring down the military expenditure to a much lower level. That is one item over which I think we ought to have substantial agreement. It is in the interest of England, it is in the interest of India that we must economise in that direction.

### A Fair Deal Called For

Coming to the next item, namely, of debt service, I need not assure you, because the Congress has al-

ready assured all, that it is not the intention of any one to escape one single farthing of our just obligations, but there are claims which I maintain ought to be examined. The Congress has issued a Report, and I know that some of you may simply laugh and say that this is a ridiculous claim which could never be entertained, but I maintain that some of the claims that have been made by the Congress could be justified, at any rate. Any impartial observer would come only to one conclusion, that there are a number of items which should never have been debited to the Indian revenue: expenditure on account of the Egyptian War, expenditure on account of the Sudan War, expenditure on account of the Abyssinian War. May I ask what India had to do with all these wars? Is it not fair that we should examine our obligations and see whether some of the items which were debited to the Indian revenues should not now be debited to the British revenues? Then, again, if it is contended, as it has been even by the Simon Commission that a portion of the military expenditure should in future be charged to the Imperial revenue, may I ask: what about the past? It is all right to say that adjustment should be made in future, but I say, what about the past? It is only a question of principle. If in the past the total expenditure has been charged to the Indian exchequer and if it is proved that a portion in future should be debited to the British revenue there is no reason why we should not adjust also our past accounts. I am sure there is a very strong case for the investigation of our liabilities, and if our liabilities were examined by any impartial tribunal—I do not mean the League of Nations—I say if our liabilities were examined by any impartial tribunal composed of Englishmen and Indians they could come



to only one conclusion: that India has been treated unjustly and that a large amount should never have been charged to the Indian revenues, and that now there should be an equitable adjustment of India's burden.

Surely if we attacked only these two items we could make a substantial reduction. Then, if we could so reduce our mortgage, probably the safeguards would be tolerable. Probably you would not insist on safeguards of the kind on which you are insisting at present, because then the percentage which is now 80 would go down; it may be below 50, it may go down even to 40, and therefore you might not be insisting on the same rigidity which you are insisting on today.

### **What Safeguards Imply**

Now, Sir, let us consider this question from another angle. What is the implication of an 80 per cent mortgage? We Indians have maintained all along that the Indian administration is a most costly administration. It may be very efficient. All the same it cannot be denied that it is a very costly administration. Now supposing the future Finance Minister, with the approval of his Cabinet, decided that economies should be made in certain respects, where is he going to make those economies? Out of 90 crores, 72 crores is already reserved to the Governor-General which the Finance Minister cannot touch, which he should not touch. There are only 18 crores left. What economies is he going to effect in 18 crores? He may effect paltry economies here and there but he cannot make any substantial economy. And, over and above that, he must have money for future developments in India. Where is he going to find the money? You are putting a sort of

permanent seal on the extravagance of the past administration. He cannot touch your 72 crores; he must impose new taxation; and how is he going to find new taxation? He must be faced with a deficit budget every year. Do you think this is the kind of financial control which we want? It is something like having possession of the Treasury vaults without their contents. I do not think any self-respecting Finance Member could carry on with all these rigid safeguards and will care to accept office with a stipulation that 72 crores every year, without questioning the justification, shall be handed over to the Governor.

### City Financiers

Sir, much has been said about satisfying the City financiers. Speaker after speaker got up and talked of our sterling debts, as if all our liabilities were confined to them. I was a little pained when I found my esteemed friend Sir Padamji Ginwala get up and say that his peace of mind would not be disturbed even if he found the mortgagee in possession. In fact I was very much pained to hear that. We all take it for granted that we have to satisfy only the City financiers; but we forget that half of the Indian liabilities have been provided by the Indian investor.

Sir P. Ginwala: I am sorry to interrupt my friend, but I made no distinction between sterling and rupee debts at all.

Mr. Birla: Well, Sir, he said even if he found the mortgagee in possession—

Sir P. Ginwala: The legal position was such. I did not say he was in possession—

Mr. Birla: I am coming to that. He said that even if he found the mortgagee in possession—



Sir P. Ginwala: No, not the mortgagee in possession—even if the legal position was that the mortgagee was in possession.

Mr. Birla: Who is the mortgagee? Is it the City financier alone?

Sir P. Ginwala: No; I did not say that.

Mr. Birla: It is not the City financier alone. Well, if it is also the Indian investor, may I ask if the Indian investors have sent their representatives here to ask for these safeguards? For whose benefit are we providing these safeguards? Satisfy the City financier by all means; I am prepared to satisfy him; but I would issue a warning to my friends not to run too much after the City financier, trying to woo him, because you have not only to satisfy him, but, more than that you have to satisfy your Indian investors; and if you mortgage 80 per cent. of your revenues the Indian investor is not going to be satisfied with that sort of finance. He does not want that sort of safeguard. In whose interest are you going to mortgage 80 per cent. of our revenue? Surely not in the interest of the Indian investor.

### **Indian Investors' View**

I therefore maintain, Sir, that you may satisfy the City financiers, but do not ignore the Indian investor, because if you lose his confidence you cannot maintain the credit of the Indian Government even for one day. This Government could not do it and your Government shall not do it. It is impossible for any Government to maintain the credit of India without inspiring confidence in the Indian investor. Who is going to provide money for all the new developments? Certainly not the City financiers. It is the Indian investor who is going to provide the money, and you should do nothing

which may lose you his confidence.

Did either the Argentine or America, when they borrowed money from London, provide any safeguards in their constitutions? Why should the City financiers ask for constitutional safeguards from us? After all, we have been with them and we want to be with them as their partners. The Argentine is not your partner; America is not your partner. Still America borrowed a large amount of money before the War, and they never provided any safeguards of the kind which you are providing in our constitution. They did not provide anything of the kind in their constitution. Therefore I give a warning that you should not ignore the Indian investor. And I want to make it clear that the Indian investor does not want these safeguards, he detests these safeguards, because these safeguards which are proposed are not in his interest; they are in the interest of the City financiers. He knows very well that if 80 per cent of the revenue is mortgaged to London through the Governor-General then his position is simply jeopardised. His position is not at all secure. And therefore, we strongly oppose these safeguards.

### Workable Scheme Possible

It may be asked whether it is possible to prepare a workable scheme and to that I would answer that it is. I said at the beginning that it was possible to prepare a workable scheme provided there is goodwill, there is sincerity, and there is a genuine desire to come to some sort of amicable settlement; but, Sir, I very much regret to have to confess that the atmosphere is totally against that.

The latest Report by the Federal Structure Committee makes the position worse than it was last year.



It has been decided that you cannot define financial safeguards at present. The shadow of control which the last Round Table Conference proposed to give has been obliterated and indeed wiped out of existence. I maintain, therefore, that it does not look at present as if there was a genuine desire to come to an amicable agreement. We have been talking of safeguards and that sort of thing so far simply to waste our time. If there was a genuine desire to do so, I maintain it is possible to arrive at an amicable solution; but, whatever may be said, whatever protest may be made from the Government benches, the fact remains that if the mandate "Wind up the Conference and send Gandhi back" has not been obeyed in letter, at least it has been obeyed in spirit. Tomorrow may show a change of heart, but up to this time I confess frankly that I do not see any genuine desire to come to any workable agreement.

You may, if you like, Sir, blame us for not having arrived at a communal settlement. I deplore the fact and I confess our failure. If you like you may exploit it, but may I put this point to you. Have you perfect unanimity in your own country? Have you settled your minority problem? Are you all united on the question of tariffs and many other problems? Certainly not. Why then should you exaggerate our disunity? There are reasons for this disunity, and I hope we shall be able to come to some agreement among ourselves; but I would warn you not to exaggerate it and not to take advantage of it.

#### **What Next?**

The Conference may be wound up and Mahatma Gandhi may be sent back, but, may I ask, what next?

Have you got any programme? People here swear by law and order, and I should like to say that we business men too are equally for law and order. It is under law and order that business men thrive. Disturbance, discontent and anarchy do no good to any one, certainly not to business men.

The difference, however, between us and those reactionaries who have been crying themselves hoarse for law and order and who have been swearing by a strong government is this, that while we really want law and order in India the reactionaries here are actually driving the country towards disorder, strife and anarchy. They are not leading the country towards law and order. We had sermons on the efficacy of persuasion and reason. We were told that the policy of the Congress was a policy of negation, a policy of destruction, a sterile policy. What have you proved? We have been discussing, reasoning and trying to persuade you for the last nine weeks. What is the result? We are nowhere. Has it not been proved by your actions that the policy of persuasion and of reason has failed?

### **Civil Disobedience**

I am sorry to have to say that, but, as an unsophisticated man, I cannot draw any other inference. You have said in so many words that the policy of persuasion has failed, and what is it that you are doing? You are challenging the Congress to start the civil disobedience movement again. In whose interest do you want to head the country towards disorder and strife? Surely not in the interest of India; surely not in the interest of England. I feel puzzled. What are the implications of the civil disobedience movement? I do not want to frighten. I have no desire to do so but as a business



man I think it is my duty that I should lay these facts before you. Now, what are the implications of the civil disobedience movement, the no-tax campaign? As a result of it the land revenue constituting an item of 35 crores suffers. Excise goes down. That constitutes an item of 20 crores. Business suffers and the result is that the income-tax goes down. Boycott foreign goods and Customs decline. The breaking of the salt laws means that the salt revenue goes down. The result is that there is again a deficit in the budgets, Central and Provincial. You have been emphasising the importance of the credit of India. What happens to the credit of India and how are you going to balance the budget? Not through new taxes because no source of taxation has been left untapped. Not through borrowing because when a country is in a disturbed condition no investor, whether he be an Englishman or an Indian, cares to invest his money in Government securities. The result is that you must be prepared to remit money from England to govern the country. I put this question: In whose interest is this all going to happen? Is it going to do any good to your trade in India, any good to your industries, any good to your sterling? Whom is it going to benefit? I ask the question and I feel puzzled.

The other day a friend of mine paid Englishmen the compliment of being a nation of shopkeepers. It was a compliment. When I see a nation of shopkeepers,—I was using that phrase in a complimentary sense—when I see men of common sense, business men ready to remit money simply to govern a country which could be governed in other ways, better, cheaper and really satisfactorily, I do not understand for whose benefit it is all happening. There is the other side of the picture. Lord Snowden once rightly remarked that if you in-

creased the purchasing power of each person in India by a farthing per day, there would be an increase in your export trade of 60 million pounds per annum. Those are the two pictures. Why should we not choose the better of the two? Why cannot we come to some sort of honourable settlement by which we can have peace and prosperity in the country? Law and order I certainly want, but I say that law and order cannot be maintained unless the country is governed with the consent of the people.

### **Come to Terms Now**

No Government can be strong enough to govern a country without its consent. Therefore I maintain that if you desire law and order the condition is that you must govern us with the consent of the people or the people must govern themselves and be your friends and your partners. I warn you again that you will be making the greatest mistake of your life if you do not take the opportunity of coming to a friendly settlement. An English friend of mine said the other day, "Fellows, you made the greatest mistake of your life in not coming to the Round Table Conference in 1930, when the Labour Government was in power and the Government was very sympathetic." I do not know whether there is any truth or not in that statement but I say it is truth that it would be the greatest mistake of your life if you do not take the opportunity of coming to terms with India. I know the youth of my country. It is quite possible that a few years hence you will not have to deal with men like Mr. Gandhi who has proved in many respects a greater Conservative than many of you; you may not have to deal with Princes; you may not have to deal with capitalists like myself; you may



have to deal with new men, new conditions, new ideas, and new ambitions. Beware of that.

### Two Paths

There are two clear paths: one of them will lead to ruin, destruction, strife and anarchy; another to peace, contentment and prosperity. Which will England choose? I hope, Sir, that the statesmanship of England will rise to the occasion and choose the path of goodwill, contentment, peace and prosperity.

# INDUSTRY AND LABOUR

"Let labour put its trust in Mahatma Gandhi's philosophy and in his methods which have already paid dividends and which have enabled the labour organization which grew up under his inspiration to achieve a very substantial measure of success. With faith in these, let labour earnestly take to a full measure of participation in increased production, so that it can have more on which to lay its claim than what can be distributed between itself and the employer today. Let it first participate in creating wealth before claiming its just share. Let it regard "go-slow tactics" as inimical to its interests and those of the nation. Today, he serves the nation best who produces most and none is a worse enemy of the country than he who retards the process of production."

—SARDAR VALLABHBHAI PATEL,

*Addressing the Standing Committee  
of the Central Advisory Council of  
Industries in New Delhi on 12th  
November, 1949.*





# I

## LABOUR AND CAPITAL\*

We had met only yesterday as commerce and industry men to survey, review and discuss our day-to-day problems, and to-day we meet again, but this time only as employers. The difference between the two is without distinction, but as employers, we assemble to discuss narrower issues, although our stakes are much higher than we imagine.

The year under review has brought in a number of new legislations directly affecting the employers. We have had the Companies Law Amendment Act and also the Payment of Wages Act. Both were good pieces of legislation. The new Companies Act will ensure a better control over company management and thus may help a healthy mobilization of money. On the other hand, various pieces of legislation passed on the recommendations of the Whitley Commission, of which I had the honour to be a member, may tend to ameliorate the conditions of the workers. Yet all these legislations touch only the fringe of the vast problem of India which, to put the thing in a nutshell, is of mere bread and butter.

Greater industrialisation undoubtedly will help the march in the right direction. It will relieve the bur-

\*Presidential Address at the Fourth Annual Meeting of the All-India Organisation of Industrial Employers held at Delhi on 8th April, 1937.



den on the soil and create a higher standard of living. And co-operation of labour and capital is the keynote to the achievement of greater industrialisation. Any measure that brings in a voluntary and determined co-operation between labour and capital is most welcome in the larger interest of the country. I fear such measures as may lead to that end have not so far been thought of.

### Loss from Strikes

We are just now passing through a severe strike in the jute industry of Calcutta. It is not possible to estimate the total number of days lost so far, but I guess that it would not be less than 3 million days. During the last seven years, the phenomenon of strikes has been on the decline. The following figures will make an interesting study:—

#### Industrial disputes in British India excluding Burma:

Year.	No. of strikes.	No. of workers involved.	Working days lost.
1928	203	506,851	31,647,404
1929	141	531,059	12,165,691
1930	148	196,301	2,261,731
1931	166	203,008	2,408,123
1932	118	128,099	1,922,437
1933	146	164,938	2,168,961
1934	159	220,808	4,775,559
1935	145	114,217	937,457

This shows that from 1928 onward up to 1932, there has been a steady decline in the total number of days lost. In 1933 and 1934, the graph again shot upward only to drop in 1935 when it touched a rock-bottom level. But does this decline mean better relations between the employers and the employees? I wish I could answer this question in the affirmative.

My own opinion is that strikes in this country are generally guided by the condition of industries. Prosperity, or an exaggerated notion of prosperity in the industry concerned, brings in a ready strike—not so its depressed condition. The recent strikes in the Jute Mills were, apart from their individual merits, generally inspired by a notion that, because the Mills were increasing the working hours, there must be a greater prosperity. The fact, as is well known, is quite the reverse. But I have no desire to analyse the causes of the strikes or to criticise one side or the other for them. Whatever be the causes and whether they go against the employer or employee, one thing is above controversy—that all these strikes, without any exception, cause immense losses to the national wealth.

The following table will give us an idea of the reasons which caused strikes during the last eight years. And the next table analyses the successes or failures of the strikes from the point of view of the workers.

#### Grounds of Dispute

Year.	Question of wages.	Question of personnel.	Question of leave & hours.	Question of bonus.	Other causes.
1928	109	44	6	1	43
1929	54	55	3	2	27
1930	69	34	7	4	34
1931	69	39	20	2	36
1932	68	31	2	3	14
1932	68	31	2	3	14
1933	95	19	5	2	25
1934	107	24	6	1	21
1935	91	21	10	2	21



**Workers' Success**

Year.	Wholly successful.	Partially successful.	Unsuccessful.	In progress.	Total No. of strikes.
1928	17	41	128	7	203
1929	31	27	80	3	141
1930	36	22	89	1	148
1931	23	42	99	2	166
1932	14	27	74	3	118
1933	20	23	96	7	146
1934	32	25	100	2	159
1935	25	29	87	4	145

It is clear from these two tables that the majority of the strikes were due to the question of wages, although a large number were also due to the question of mere personnel. It is also clear that from the point of view of the workers, the strikes resulted more in failures than in successes. My opinion, however, is that from the mutual point of view all the strikes are nothing but ruinous. The labourer is hardly in a position to bear a loss, and, therefore, an unsuccessful strike for him is simply the last straw on the camel's back. But even a successful strike is no help to him. Similarly, from the point of view of the employer, a strike which he might have crushed down to the last atom is anything but a profitable investment. The question is, "Can't we stop this devastation of our national wealth?"

**Ahmedabad's Example**

Thanks to Gandhiji, there are no strikes in a portion of the Ahmedabad textile industry. My admiration also goes to the Ahmedabad Millowners who have learnt to work under discipline with marvellous results. But can't this example be emulated in other parts of India? I wish I could be optimistic but,

realists as we all are, it must be admitted that to reproduce Ahmedabad in other parts of the country, we must have the Ahmedabad inspiration flowing from that Great Soul, Gandhiji, who has worked up the things so successfully. From beginning to end, it is all a question of personality. I hope India may be able to produce men who can become true trade union leaders. I also hope that we would begin to recognise the usefulness of genuine trade union leaders. When I use the word "genuine," I exclude those who grow during strikes like mushrooms and disappear after the strikes are over and are trade unionists purely out of ulterior motives. A genuine trade union leader would be expected to take constant interest in his flock. But even if Ahmedabad could not be reproduced, surely something else is possible to be done.

Next best to Ahmedabad is the Bombay arrangement where there are labour commissioners of both sides, one appointed by the Government to represent labour and the other by the Millowners to represent industry, to settle their differences amicably. I admit that intrinsically it is not a sound system since the representative of the Government is ultimately responsible to the Government and not to labour. But all the same, it has brought about a certain amount of relief. But how far this system will be successful in the future when provinces function under autonomous Governments, I have my own doubts. I personally would prefer the system of compulsory arbitration until trade unions become a reality. After all, differences we have to settle, whether by crushing strikes or admitting defeats. Both the results are mutually harmful. Why not, therefore, use a better method, that is, a method of arbitration, even though



it may not be voluntary? One wonders why so little use has been made of the Trade Disputes Act which provides at least a substitute of some sort for arbitration. I think that by not utilising the machinery of that Act, definite harm has been done to the relations of capital and labour as also to the cause of national wealth. I personally think that compulsory arbitration by law can avoid a great deal of bitterness on the one hand and increase the prosperity of the industry and the standard of living of the workers on the other. This can, to a certain extent, put a check on the loose talk of communism.

### **Record of Capitalism**

I have deliberately touched this point because we hear a good deal about socialism now-a-days and yet so little about capitalism. It looks as if it is taken for granted that capitalism being an accused party is also the guilty party and no one dares see or say any good point in or about it. It was for these reasons, perhaps, that it was left to Pandit Jawaharlal Nehru, a great socialist, who would not allow the system of capitalism to prevail a moment longer if it rested with him, to admit that—

“It is not a question of blaming capitalism or cursing capitalists and the like. Capitalism has been of the greatest service to the world and individual capitalists are but tiny wheels in the big machine. The question now is whether the capitalist system has not outlived its day and must now give place to a better and a saner ordering of human affairs which is more in keeping with the progress of science and human knowledge.”

We all agree that he is perfectly right in paying

this compliment for the past. But I ask, "is capitalism in India already grown into such a spent-up force, an anachronism too much out of time to be of any further good?" In my opinion, far from being old, in India at least it has not yet even developed the vigour of youth and therefore if its past has been good, there is nothing to make one despair of its future.

Let me give a short story of what capitalism has been able to achieve so far in India. It is of course not much, but it is, on the whole, good which certainly could be improved upon under more favourable conditions.

### The Story of Sugar

First of all take the story of sugar. In 1921-22, we imported sugar worth 27.5 crores of rupees. Next to cloth, it was the largest item in our imports in those days and I remember people thinking of taking up the question of boycotting foreign sugar after they had finished with foreign cloth. The import duty in 1921 was 15%. The then ruling price of sugar was something between 16 and 20 rupees per maund. A constant drain of wealth went on from India across the seas. This was the tragic picture of those days. And compare the same with that of to-day. The import has practically been stopped and the outflow of wealth has been definitely checked. The consumer who had to pay a monstrous price for his sugar requirements is getting it at an unprecedentedly cheap price. Just compare the price of between 16 and 20 rupees of those days with the price of to-day, viz., between Rs. 6 and Rs. 7. The Government, which got on an average below two crores through customs by way of revenue so long as duty remained 15%, are likely to get now 4 crores through excise alone. Over and above this, the Government get through income taxes another large amount. The con-



sumer and the Government both have thus gained. But what is this gain as compared to the much larger gain caused by the increase in the national wealth and by the stoppage of our money going across the seas?

Rs. 27 crores have been definitely stopped. And now let us see how much national wealth has increased. The production of gur in 1921-22 was 26 lakhs tons. The 1936-37 forecast estimate amounts to 68 lakhs of tons, a figure for which we can surely take pride. The total value of gur, even if we value it at a modest rate of Rs. 1|8/- per md., would be nearly 28 crores of rupees. In 1921-22, at the same valuation, our production was worth Rs. 10.9 crores. Thus we have increased our gur production by Rs. 17 crores, besides preventing 27 crores going out of India. It may be said that we have started producing more cane at the expense of other crops. I can say that this is not entirely so. In 1921-22, we had 2.5 million acres of land under cane cultivation and in 1936-37, it is 4.2 million acres. Thus while the increase in acreage is only 168%, the increase in production is 261%. How the advent of sugar has made the cultivator more efficient could be very easily gauged. The average production per acre has gone up from 1.1 ton in 1921-22 to 1.6 ton in 1936-37. In addition, the quality of cane has also improved.

There are 156 sugar factories to-day with a capital of over 30 crores of rupees producing nearly 11 lakhs of tons of sugar, employing nearly 70,000 persons and giving relief to nearly 21,000,000 agriculturists who depend on the industry as cane-growers. The consumption of sugar has gone up too, which has thus given extra nourishment to the people. In 1921-22, the consumption of gur per capita was 18 lbs. In 1936-37, it is 42.3 lbs.

This, gentlemen, is the story of sugar. I specially

present this story to our Finance Member who has his own bias and cannot help having a tilt at the policy of protection, which, in the case of sugar alone, has brought blessings to 42 lakhs of homes of agriculturists growing cane and has given bread to 21,000,000 souls.

### —And of Cotton Industry

Now let us review the progress of the cotton industry. In 1921-22, we imported cotton piece-goods worth Rs. 45.4 crores. In 1920-21, we imported as much as 88 crores worth of cloth and even in 1922-23 we imported Rs. 60 crores. Thus an average of Rs. 60 crores may be taken for all practical purposes. In 1935-36 imports dwindled down to Rs. 15.7 crores. What heavy odds had the cotton industry to fight against? Far from getting any protection in its infant stage, it had to work with a handicap in the shape of excise duty imposed to placate Manchester. And yet it has a proud achievement to its credit. The Indian cotton mills are now producing nearly 60% of India's requirements; another 25% being supplied by handlooms, the rest only 15% being supplied by imports. Side by side with factory production, the handloom industry too has expanded. In 1926-27, it was producing 1,300 million yards. In 1935, it produced nearly 1,700 million yards. It could not be thus said that cotton mills have expanded at the cost of handlooms or sugar mills at the expense of gur. Both, viz., the major sugar and cotton industries have expanded at the cost of foreign imports.

In cotton textiles, thus, we have been able to stop another drain of Rs. 45 crores which was flowing across the seas and have been able to increase the national wealth by home production enormously. The consumer and also the producer of raw cotton have both been



benefited. The price of raw cotton, which was Rs. 285 Broach in 1926-27, has come down in 1935-36 to Rs. 225, a drop of  $21\frac{1}{2}\%$ . On the other hand, the cloth price that ruled at Rs. 1|0|5 per lb. in 1926 has come down to Rs. 0|9|11 in 1935, a drop of nearly 47%. The consumer has thus definitely gained. At present the textile industry has invested Rs. 45 crores and is employing labour numbering 4 lakhs. It consumes 40.3% of the total Indian crop of cotton.

### Other Achievements

The story of steel, paper and cement could be told more or less in the same terms. But a lot of achievement has yet to be made in respect of insurance, shipping and banking. In insurance, out of a total business of 215 crores in 1934, the share of Indian companies was only 132 crores as against 71 crores out of a total of 124 crores in 1928. The Indian companies' share was about 58% in 1928 which by 1934 improved to 63%. In banking our share in the business is very insignificant and in shipping we control barely 12% of the total coastal traffic.

While this could be called a creditable achievement and has done a lot to increase national wealth and check drain to foreign countries, I fear it is only a drop in the ocean of Indian poverty. Things like motor cars, machinery, rubber manufacture, drugs and chemicals, rayon, aluminium and a variety of other things which can be produced in this country are still being imported. Besides, a number of things could be produced for home consumption in order to bring up the people's standard of living and obviate unemployment. A greater industrialisation must eventually reduce the pressure on the soil, a phenomenon bound to lead to intensive agriculture and more efficient production in cottages. In order

to achieve all this, a sympathetic Government and co-operation between labour and capital are most essential. I appeal to those holding socialistic views not to do anything which would create class hatred and instability and react most unfavourably on the progress of industrialisation that is going on and eventually on the prosperity of the whole nation. What I am dreaming of is possible of achievement only in an atmosphere of goodwill and mutual trust between men and men, not only of this country but between men of this country and of countries across the seas.

### **Pandit Nehru's Fairness**

I do not say that capitalists have worked with altruistic motives, but I could say that in their activities selfishness pure and simple has not prevailed. I have noticed a tendency among the rank socialists to run down the capitalist personally and call him a blood-sucker, exploiter and other names. Happily, Pandit Nehru, who thinks more on this subject than his followers, always makes a distinction between the system and the personnel. To those who abuse persons, I would say that they are not friends of society, who propagate bitterness, be it racial, communal, religious or between the classes. We capitalists are no more saints or devils than an ordinary socialist. In intelligence we are perhaps a little dull verging on stupidity, in vision a little short-sighted but in heart quite sound. I, therefore, deplore the tendency of those who bring in bitterness. As regards those who attack the system, I would say that it is easy to produce on paper a brighter picture, the advantages of which may not be as solid or real as they appear. I pin my faith to the system of capitalism and feel that it will grow and adapt itself to the needs of the time.



### Socialism and Capitalism

But we should not rest with mere criticism of the socialist. We have our own duty to discharge. Our first and foremost task is to relieve the burden on the soil by the establishment of large industries and thus create further wealth and employment for the people at large. We need not be scared by the cry of socialism because if, in the past, we have rendered service and thus deserved compliments, in future too we may be expected to live up to our reputation. I, therefore, personally do not fear socialism or communism so long as we are on the right path. But let me say without being presumptuous that the greatest danger to the system of capitalism is not from socialism or communism so much as from our own selves. I can visualise common ground between a healthy capitalism and socialism both growing and flowing in healthy channels and meeting at some stage. After all, those who preach socialism are not enemies of society. They talk with a zeal because they think that this is the only way for the betterment of the masses. Perhaps we can show them by introducing a spirit of service in our activities that ours is a better way. Let us, therefore, think of our own shortcomings and defects and correct them. Then alone we can protect the system of capitalism.

## II

### WAGES AND EMPLOYMENT\*

The year under review has been marked by events of great importance, political as well as economic. In the political sphere, we have now autonomous Governments functioning in all the provinces. People have begun to breathe a different atmosphere. In the seven provinces where the Congress is in office, measures of far-reaching importance are being planned and considered. If in certain respects impatience is observed, it is only an indication of a fervent desire to improve the condition of the masses, a thing which every one of us would welcome from the bottom of his heart. Mistakes due to inexperience and hasty decisions are bound to be made, but who is infallible? And where the purpose is honest and means good, man is saved from pitfalls by Him Who guards the destiny of us all.

As was natural, the advent of a new Government responsible to its own electorate aroused new hopes, new expectations. In the effervescence of high hopes, one is apt to emphasise one's rights rather than one's duty. If every one talks only of rights at the expense of duty, then disorder and chaos is the only end.

\*Presidential Address at the Fifth Annual Meeting of the All-India Organization of Industrial Employers held at Delhi on 2nd April, 1933.



be it a small family or a big nation. The millennium could be visualised in a society where every one talks only of duty and forgets the rights, but that society perhaps could only be conceived and not perceived. The world is what it is. There has to be therefore a compromise between duty and right. If that compromise is based on equity and justice, the rights are automatically safeguarded and perhaps people can devote greater attention to their duties.

### Contented Labour

In any case, with the advent of new hopes, an all-round ferment was inevitable. It has not confined itself to the industrial population alone. Perhaps agrarian trouble is likely to cause much greater anxiety to the Governments concerned than industrial discontent. But since we are directly concerned only with the industrial population, a few comments on the position seem to be necessary. There have been strikes at Kanpur, Ahmedabad and a number of other centres. Kanpur caused the greatest anxiety. In Ahmedabad, timely action on the part of the Government nipped the evil in the bud. But repression is not the remedy. Repression has to be resorted to in the larger interest of society just as a surgeon uses his knife in the interest of the patient. But elimination of the diseased portion of the body by drastic measures is as much a necessity as the purification of the system. And the Government rightly did not stop at repressing the violent elements. It immediately took up the constructive side of the work which is represented in the Labour Enquiry Committee's Report. It would be rash on my part to give my unqualified support to all its recommendations. The most competent critics will be those who

are directly affected by these. But I would commend this much for the consideration of the employers. Is the choice confined between the *status quo* and the recommended position? I would say certainly not. The choice is between a discontented labour and a contented one. And I have no doubt that all of us would every time prefer contented labour to discontented labour. If that be the criterion of our judgment of these Reports, then no doubt we must whole-heartedly support their recommendations.

I am glad that the employers who have been loaded with new burdens under the recommendations have accepted them and have thus given ample proof of their patriotism and far-sightedness.

It would not be out of place now if I made some observations about general principles.

Whenever there is a clash of interests between industry and labour, the public sympathy is always with the workers. It is natural. The poor must command the sympathy of every one. That the earnings of the poor must be levelled up even at the expense of the rich, few amongst the employers would demur to. But sympathy based on mere sentiment, and not on intelligent logic and correct appreciation of realities, may not always be in the wider interest of even the workers, to say nothing of other interests of equal importance like those of the agriculturist and the consumer. I will appeal to the public therefore to take a more intelligent and analytical interest in the economics of industry in relation to the earnings of labour and its employment, besides the interests of the consumer, the producer of raw material and last but not least of the shareholder who has rendered such a tremendous service during the past thirty years by way of creating a vast field of employment in the country.



Sentiment is a great virtue. I myself am a bit of a sentimentalist, but unless sentiment is based on reason it is apt to take us further away from our goal which we all aspire to reach.

### Wages in Industry

As I said in my speech last year, most of the disputes arising between the employer and the employee are over the question of wages. The Bombay Enquiry Committee too, in order to appease the workers, has decided to recommend in an interim report an increase in wages. Other questions may wait but not the question of wages. The U. P. Enquiry Committee will issue its report shortly and the C. P. Enquiry Committee has just begun its work. Perhaps all these reports will primarily deal with the question of wages. And I wish to put forward some general observations on this aspect.

A decent living wage is a desideratum on which there could be no two opinions. But there are other factors equally important even from the exclusive point of view of labour itself which should not be ignored. India being an agricultural country and land being over-burdened, it could safely be said that at least one-fourth, or perhaps more, of its population is without employment. Consequently, wages in the rural areas are extremely low. Perhaps the ratio between the rural and the urban scale of wages may be 1 to 12, or even higher. Owing to the higher cost of living in urban areas and to the special skill required in a factory worker, disparity between the two earnings is not only inevitable but also desirable. But let us not fail to take note of the evil results of any undue disparity. An unreasonable disparity would very largely influence the rural population to offer its labour to

factories. When there is more supply than the demand, the rates of wages ordinarily must fall. But as in this case, the fall would be prohibited by law, the employer will be compelled to adopt another convenient course to keep his cost down. That will be the course of rationalisation and adoption of labour-saving devices. The result of such a policy will be fewer men in employment and higher wages. Most up-to-date machinery will have to be purchased from abroad for this purpose, which requires remittance of millions of rupees to foreign countries. So far India has lagged much behind the other countries in respect of rationalisation and labour-saving devices. In India a man generally minds 200 spindles and 2 looms in a cotton mill. Against this, in foreign countries one girl minds 1,000 spindles, or even more and 6 looms. But there are countries where one man minds as many as 40, and even a larger number of automatic looms. India has not adopted these methods so far because of the cheapness of wages. Once such wages are raised unduly high out of all proportion to the rural wages, labour-saving devices will be resorted to with the result already mentioned. The country should not fail to take note of this aspect of the question. We have to choose between higher wages with less employment and moderate wages with large employment.

### **Should Not be Unduly High**

The second point that we have to consider is the effect of unduly higher wages on industrialisation. Everybody feels the need of providing greater employment to the army of the unemployed. And greater industrialisation has been suggested as one of the remedies for the malady of unemployment. But is greater industrialisation possible if our cost is higher



than the cost of imported material? It is in order to maintain the cost of imported stuff higher than the cost of goods manufactured in the country that tariff protection is being provided. And I have no doubt that every Government will have to pursue this policy in future so long as we are not fully developed industrially. And rightly too. But let us not forget that it is the same poor consumer who pays or rather is asked to invest for this policy of tariff protection in order that eventually he may reap its benefit. And if wages are increased in too high a proportion, either the tariff wall will have to be raised much higher—a greater sacrifice for the poor—or the policy of protection will fail which means that his investment is lost. In the latter eventuality, the process of industrialisation will be thwarted in which case the problem of unemployment will become more acute.

There is a third point. A day must come when not the customs but perhaps the industries will be the largest source of revenue to the Government of the country. And only a prosperous industry can serve the Government as a source of taxation.

### Who Pays Wages ?

To sum up, therefore, firstly in the interest of greater employment, which will be seriously jeopardised through rationalisation and labour-saving devices, and also through hindrance to industrialisation, and secondly in the interest of the tax-payer, extremely disproportionate wages are not in the wider interest of the country. Let no one run away with an idea that higher wages must eventually come out of the pocket of the industry concerned. If it comes definitely and wholly out of the pocket of the employer, then the hen that lays the golden egg will die soon and there

will be neither the employer nor the employee left. It is only partially true that higher wages come out of the coffers of the industry. To a great extent, the fact is that it is the worker himself (higher the wages, less the workers for the same job because of labour-saving devices and rationalisation) and the tax-payer (because of protection, etc.), the consumer (who will be compelled to pay higher prices for his needs) and the agriculturist (who due to lower purchasing power of industry will be compelled to sell his raw produce cheaper) who eventually pay the higher wages. The industry is only one of the parties that is affected by higher wages. Substantially it is a clearing house.

So long as people had no responsibility in the Government, the old method of irresponsible talk did not matter much. But now in the Provinces, they are their own masters. The Government is only their servant. And at the Centre, responsibility is coming sooner than we expect. It is desirable therefore that the public should not run away with loose ideas but analyse every aspect of our life as responsible persons and express their views based on reason and logic.

Let me not be misunderstood. I am not criticising the recommendations of the Enquiry Committees. On the contrary, I welcome and support their decisions. But as an industrialist, I must say that it is not the industry but the public at large on whom ultimately falls, to a great extent, the Wage Bill and therefore it is they who have to decide whether a higher wage with smaller employment, higher prices to the consumer, lower prices to the producer, is preferable to a reasonable wage bill with reasonable prices for the consumer and the producer and a reasonable dividend for the investor and a reasonable contribution to the exchequer.



If industry is to be treated as a fount of prosperity for the worker, the consumer, the agriculturist and the investor, then every action that affects the industry will have to be considered with a wider outlook. It is the benefit of the country as a whole that will have to be taken into consideration and not that of a particular section of it. I have no doubt that this is also the view of the various Provincial Governments who are so widely interested in the welfare of the masses. It was gratifying to note therefore that in a speech recently delivered by H. E. the Governor of Bombay, it was declared as his Government's policy, "The worker is dependent upon the industry and it would be doing a poor service to labour if any legislation passed for benefit lessens the field of employment or hinders the development of the industry."

### Industrial Disputes

One thing more and I will finish. If industry is the source of bread for all, then industrial peace becomes a matter the importance of which could never be exaggerated. Such peace could be achieved only if there were genuine Trade Unions with whom the employers in time of emergency could negotiate. Unfortunately, such a condition seems yet to be far off. Except in Ahmedabad, not only there are no genuine Trade Unions to represent the workers, but some of those at other centres which claim to represent labour exist merely for their exploitation for revolutionary purposes. Is it not possible for the Provincial Governments, until genuine Trade Unions came into existence, to control all questions causing dispute between the employer and the employee and enforce their will on both the parties to prevent lockouts and strikes?

I understand that the Bombay Government have such a proposal under consideration and I welcome this.



### III

#### AN INDUSTRIAL MISSION\*

I am grateful to Sir Abdul Halim Ghuznavi for this opportunity of meeting such a distinguished gathering. I feel flattered to discover that if the Indian Industrial Delegation were in good demand in England as "wise men coming from the East," we seem to be equally in good demand in our own country as men returning from abroad with knowledge of the West. It is a happy augury for the future that the East and West both should be so anxious to know each other. Therein lies the salvation of the world.

A British poet in speaking of the East once said:

"The East bowed low before the blast

In patient deep disdain.

She let the legions thunder past

And plunged in thought again."

The patience of the East may once have been a fact, but all this inexhaustible patience is now getting exhausted under the impact of poverty, illiteracy, bad social conditions and poor health. If India were still to go on practising meditation and forget the urgency of dignity, prosperity, education and a better life, she would be committing a crime against herself. India's ailments require urgent remedy. Some

\*A speech delivered by Mr. Birla at a party given by Sir Abdul Halim Ghaznavi to meet him on his return in 1945 as a member of the Industrial Delegation which visited England & the United States.

of us have even put forward our views in the form of a plan. It was in the search of remedies for her economic ills that the Industrial Delegation felt impelled to undertake this trip to England and America.

I must confess that after accepting the invitation of the Government of India to undertake this trip, I felt rather disinclined to go out, specially when there was so much to do in the country itself. Had it not been for the solemn promise I had made to undertake this trip I would have, perhaps, cancelled my original plan.

But after having visited these two big countries, having seen so many things and having gained so much new experience, I have not the slightest hesitation in admitting that it would have been a great mistake on my part had I cancelled the trip. We not only met top-ranking people and established contacts with them and studied various projects, observed newest production methods, but we also imparted education at the highest level on all important Indian subjects to those whom we were able to contact. We gave them the true background and picture of Indian economics and politics and social conditions. We impressed on all the urgency of Indian freedom in relation to world peace. We explained to all at the highest level in both the countries the significance of blocked sterling and the painful consequences of India's inability to secure dollar exchange.

### **Mission Fulfilled**

We believe we impressed all whom we met. We set people athinking. And as our meetings were generally with those who count, we had an opportunity to educate them on India.

Our main object, of course, was exploratory—to



know people, to get 'know-how' by studying the latest scientific methods of production, to investigate the possibility of obtaining capital goods at reasonable prices and within a reasonable time for Indian industrialization, and of getting technicians from these foreign countries. And in this exploratory task we had complete success.

Both the British and American industrialists welcomed us with open arms and received us with utmost cordiality and friendship. They gave us the fullest co-operation in our task. In England His Majesty's Government and the British industrialists combined in making our task as pleasant and as easy as possible. We were shown round the best factories with utmost frankness and sympathy. Any awkward questions that we put were candidly and clearly answered. We were given the fullest opportunity of discussing all the intricate and complicated problems in an atmosphere of utmost friendship.

In America, too, the United States Government made it possible for us to travel without any restriction. During the latter period of war travelling by air without priority was an impossible task in America, but it was made possible for us only by the help of the U. S. Government. Thus our task of being educated and also of imparting education was rendered easy.

### Capital Goods Position in Britain

While, however, there was no difficulty in establishing contacts, friendship and studying the newest technique of production, the question of capital goods proved far more difficult than we had anticipated.

In England there are natural difficulties. First of all, there is the labour shortage. Then, there is the

difficulty of securing raw materials. England economically is hard hit. She has on her hands the problem of rebuilding a devastated and crippled country. For this she wants foreign currencies. And for this purpose, the British Government and the industrialists are extremely anxious to increase their export and explore new markets for their goods. But that does not mean any preference to us over their own needs or over export to countries which could give them new goods or dollars.

Perhaps, India may be a less attractive market for England from this angle until the question of blocked sterling is finally solved. Sales to India do not necessarily give to England anything that she could not otherwise get. We have already paid in advance and we are still continuing to advance and accumulate more and more sterling. If England takes up such a view, it is as unfair as it is deplorable. I hope there is no foundation for such a suspicion.

The cotton textile machinery manufacturers were, however, the most indifferent people of all manufacturers. I personally believe they could give India a much better deal than they are giving. India has been their best customer in the past and their stiffness is rather galling. They have been given by H.M.G. new shadow factories which will immensely increase their productive capacity and thus they are in a position to do much better. Yet they were indifferent. India can have, therefore, a legitimate complaint against them.

But leaving aside this one section, the other sections of producers of capital goods were more reasonable and friendly in accommodating themselves to our needs and yet they found it so difficult to meet our urgent demands.



### Position Easy in America

In America the question of capital goods is on a different footing. The deliveries there are easy. The prices in some lines are also competitive; though in others high. But here our chief difficulty is paucity of dollars. It is this difficulty which in fact frustrated at every step all our efforts at seeking American help.

Unfortunately on this question we did not find England as helpful as she ought to be. First of all, there is the question of blocked sterling needing early solution, which nobody in England today is prepared to discuss.

Even with the advent of the Labour Government, the position has not changed, since Labour is no less anxious to maintain and build up England's pre-war standard of living than the Tories. They are more busy with their domestic problems than with the solution of our difficulties.

The result was that on the question of sterling balances everyone was a bit touchy and sensitive, although I would expect every Englishman to realize that the problem of our reconstruction is no less important than that of England.

I must admit that we did not come across a single person, among those who count, who did not assure us that England wanted to discharge her liability. And yet from the highest to the lowest no one was prepared to discuss this question in a concrete manner. It is not yet fully realized in England that sterling accumulation was the result of India going starved and naked. No one realized that sterling balances were accumulated out of distress and misery.

### False Notion

In fact there are papers like the *Sunday Times*

and others who, in spite of the fact a Parliamentary committee appointed by His Majesty's Government, after thorough investigation had unambiguously declared that the prices charged by India for the goods to Britain were reasonable and not at all inflated, are still harping on the discredited tune that England had to pay an exorbitant price to India.

We tried to fight out this false notion and I think we did partially succeed; yet this false notion is not dead. I personally believe that India has a very strong case and we must insist that the question of blocked sterling must be taken up for discussion between the two countries without any undue delay.

Of course the question must be discussed only between the accredited representatives of the two countries—members of a national government here would be the right people to discuss such questions. But this question cannot be allowed to hang fire.

### Reasonable Demands

We were not unreasonable in our demands. We made it clear that we never suggested that India should be paid back all her sterling overnight to be converted into other stable currencies. All that we wanted was that a definite plan should be laid down showing within what period and in what shape England was going to discharge her debts.

We also insisted that a part of the sterling must be converted into dollars. And in this connection, we also spoke somewhat vehemently at Washington. We insisted that all dollars earned by India should no longer be allowed to go into the Empire Pool and that when Washington granted a long-term loan to England, she must make it a condition that part of that loan in dollars would be transferred to the Indian account.



At present on account of the serious situation of dollar exchange we are virtually compelled to confine our purchases to England which is not in a position to supply us much for an early delivery. The cessation of lend-lease has put Britain in a still tighter corner and this makes matters much worse for us.

India is too poor a country to delay its industrialization. We must therefore have immediate arrangement for obtaining dollars.

### Steps for Progress

The first thing, therefore, that must be done is to stop India's dollars going into the Empire Pool. That even after the cessation of war India's dollars should go to the Empire Pool is very strongly resented by India. And we made H.M.G. and Washington Government fully aware of this fact.

The second thing that is needed is that a part of blocked sterling should be converted into dollars by England raising a loan in America for such purpose.

Another very disturbing factor is that while a sterling settlement is being delayed, more and more sterling is accumulating every day. India is thus becoming a larger and larger creditor country without any plan as to how and when her debts are to be discharged. Never a creditor country was found in a worse plight.

To rectify this position, we should also negotiate a trade pact with England so as to ease the supply of capital goods and stop further accumulation of sterling. A trade pact must provide for the sale of capital goods by England at a reasonable price in exchange for our blocked sterling and partly against new exports.

### **An Immoral Lead**

In this connection, I was rather astonished to find that there are responsible people even in Government circles in Washington who are seriously suggesting that India's sterling credits should be scaled down. I wonder what right America or any other country has to make such a suggestion. The matter can be settled only between England and India. And if America cannot help, at least she should not give an immoral lead.

When India was a debtor country, America did not come to her rescue. She never for a moment suggested to England that India's debt to England should be scaled down. Now when we have paid every penny of our debt and have become a creditor country by sheer starvation, distress and misery, the only service America has rendered is to tell England that she should default and refuse to discharge a poor country's debt in full.

Of course, America has selfish motives behind such a demand because she feels that if India is a creditor to England, she would automatically make large purchases from U. K. rather than from America. But even such selfish motives should not inspire such a big nation as America to suggest that England should immorally refuse to discharge her solemn obligation.

I hope and I have no doubt in my own mind that England will not accept any such advice which is bound to be strongly resented by Indians.

### **Production Methods and Technicians**

As regards the newest technique of production, we studied English and American methods. They are all good. But none of them could indiscriminately be applied to Indian conditions. We should not forget



that mass production methods could be applied only where there is mass consumption. In India, mass consumption is confined only to things like cloth, housing materials, shoes and such other things. In order that mass production methods may succeed in this country, we have to build up the purchasing power of the people. Of course, industrialization and purchasing power will have to go side by side. One cannot precede the other. But in the beginning we shall have to adopt only such production methods as are suitable to Indian conditions. In other words, every technique that we have studied will have to be Indianized before it is adopted in this country.

As regards technicians, the position is much easier now and I personally think that after six months it should not be difficult to get any number of good technicians from England and America. Besides this, a large number of firms in both countries are prepared to supply their technical knowledge and experience on a business basis without making any condition of control and participation in finance.

There are also others who insist on some sort of financial participation and also control, but we made it clear to them that under no circumstances, would India allow the control of new industries to be exercised by non-Indians.

### German Technicians

There is another point which must be taken up by our own Government with H.M.G. And specially when a national government comes into existence, it should take it up in all seriousness. A large number of German technicians are now out of jobs. They have got large experience and wide knowledge. There are a number of new discoveries and inventions made in

Germany knowledge of which is now in the possession of the Allied Nations. We may very well ask: Why should not all that knowledge be shared by India? Why should not India be allowed to recruit German technicians to help her in her industrialization?

For some time to come, India will have to depend very much on technical help from abroad. We shall have to import technical knowledge from America and England. But, it will be a pity if the vast experience and knowledge of German technicians is allowed to rot or go waste and is not made available to backward countries like India. This is one point which I hope our own Government will take up in the course of time.

The war is over and Germany is completely crippled. There is, therefore, no military risk in recruiting a few hundred Germans in our own interest. The advantages are many, the disadvantages none.

### **India Must Have Freedom**

It is a happy sign that the country is now furiously thinking about its reconstruction. Politically, economically, socially, educationally, in every direction there is a stupendous task ahead of all of us.

But when we think of plans and programmes, we always come against one factor and that is, the lack of political freedom. Naturally no substantial help to raise the standard of the country is possible until we have a national government and political peace. If India ever wanted a national government she wants it more today than at any other time.

For a long-range policy we need political freedom. But even for a short-term programme, we find the necessity of a national government equally urgent.

The present Government is demoralized in the



first place, on account of its instability which will continue until the goal is reached. With such uncertainty it is impossible for this Government to function efficiently. All progress is thus held up.

A large scale demobilization will now take place, creating a gap in the purchasing power of the people and unless a judicious spending programme is undertaken, there will be a serious economic crisis. No Government, unless it can inspire the confidence of the people, can undertake such a programme. This Government does not inspire that confidence. That is another reason why a change in the Government is essential.

Plans are being made for the future reconstruction of India. This again demands the establishment of a national Government.

### **Wanted Builders**

There are so many reasons for a national Government. But there is one more. As happens with every other country that has to fight a battle for political freedom, so in India, the struggle has given us a kind of training quite good for a fight, but not for reconstruction. We have created men to fight political battles. But we have yet to create men to take up administration and reconstruction on the widest possible scale.

For reconstruction we need constructive mindedness, efficiency, quick and unbiased judgment, a realistic mentality, toleration, a spirit of compromise and intensive work; for all this, it is essential that we should be now in charge of the governmental machinery. That atmosphere can come only with the assumption of political responsibility.

Those who have fought political battles must be found to direct the affairs of the country and assume

responsibility. The political solution, therefore, is the greatest urgency of the time and the first step should be the establishment of a national Government.

### **No Colonel Blimps Left**

I do not want to say what the outcome will be of the new announcement. It will be tested and judged by its results after the elections are over. But I can say this much that while in England I met people in different walks of life, from the Prime Minister down to the man in the street; I met Cabinet Ministers, politicians, journalists, businessmen, and I can say without the least hesitation that everyone, irrespective of his profession, is now reconciled to the desirability of India getting full freedom. People in England are sympathetic.

There are people who still take narrow views. The Labour Government, too, while sympathetic, is a bit timid. But a substantial majority of the British public is in favour of India getting full freedom.

If India is no longer a country of snake-charmers and fakirs, of pomp and pageantry, England, too, is no longer a country of Col. Blimps and fossilized Quai Hais. In the House of Commons the intellectual level was never so high as at present. The world has changed. Everyone has begun to realize that peace and prosperity is an indivisible commodity.

Distances in the world are getting smaller and events in one country must affect the other. The victory in England has not thus filled the people with intoxication or arrogance. It is fully realized in England that peace has still to be won. The economic difficulties, too, are fully realized with the result that the people in England, though grim, are humble, sober and thoughtful. This is the time therefore, to lay a



solid foundation for co-operation between the two countries.

### Need for Co-operation

For the reconstruction of India we want freedom. We want freedom with the goodwill of the whole world including England. We also want internal goodwill and co-operation from every section of society. Then alone we can reconstruct India. In fighting against the monsters of poverty and illiteracy, we need the sympathy and help and co-operation of the whole world.

After we get freedom, we will have to develop a mentality of peace, constructiveness, toleration, catholicity, and all the other virtues which go to make a country a big and democratic nation.

We are going to get freedom very soon. I have no doubt on that score. But our difficulties will only begin after we get freedom. We have a stupendous task ahead and it is time that we realized our own difficulties and made preparation to face the same.

If we did this and if England also acted in the manner that she should, I think with the joint help of India and England, peace and prosperity may reign over the whole of the world. The bloody warfare and violence that we have seen during the last few years may become a story of the past. Let us act with faith and courage.

## IV

### INDUSTRIES IN INDIA & ABROAD\*

I have been asked to give my impressions of industries abroad. To describe the events of nearly four tightly packed months in a few minutes is a tremendous task. I will, therefore, touch only the aspects that interest India most. Men, machinery and material are the basis of all production. Comparison in all the three important fields between India and other countries thus would be of greater interest than any other description.

About men, let me say at the outset that the Indian as a man is inferior to none. In intelligence, hard work, grasp and resourcefulness, our labour is equal to the best in the world. But the favourable comparison ends there. Production per worker in India is much less than that in England or America. For instance, in America, a textile worker looks after from 20 to 120 looms according to the quality of the fabric and also according as they are ordinary or automatic looms, against 2 to 8 in India. The same disparity exists in other industries too. Why, if the Indian worker is so intelligent, is there this huge difference in production? There are various reasons.

#### Lack of Method

In the first place, the Indian worker is definitely

\*A talk broadcast from A.I.R., New Delhi on 25th November, 1940.



lacking in method, discipline and regularity. He works in a haphazard manner. He is not taught a regulated life. He has no civic sense. He is, therefore, a first-rate individualist. He is so proud of the past and so oblivious of his present-day defects that he rarely strives to correct himself. He is not slow to learn but very impatient to teach before he has learnt.

False pride breeds a kind of intolerance leading to lack of discipline. His social customs are hindrances in the way of regularity. His wife's sister's marriage or an old aunt's illness or an adoption ceremony at his father-in-law's house or a 'Shradh' in the family, or some other reason even more frivolous can easily keep him away from his work and that even without previous leave. A foreign engineer once told me that he got only half a day's leave on his marriage day and only a free afternoon for his mother's funeral.

Our habits are not conducive to punctuality. If Mansukh takes his breakfast at nine, Tansukh enjoys it at ten, Chainsukh at eleven and Nainsukh at twelve. If all these Sukhs happen to be in a joint family, fire in the hearth is kept burning for hours and the poor wife or the sister-in-law has to dance attendance to serve meals not once but four times. No wonder one of them falls ill and keeps all the Sukhs away from their work. For successful industrialization, we must learn method in work, regularity, discipline and a drastic change in our social customs and habits.

### Necessity of Drastic Reform

A drastic reform in food too is necessary. Balanced and adequate nourishment is the first *sine qua non* for increasing the worker's efficiency. But uniformity in taste too is essential up to a point if waste of time and food is to be prevented.

How many are the methods in India for cooking the same food? 'Pooree', 'Luchi', 'Chapati', 'Khakhra', 'Roti', baked on a 'tava' or a 'tandoor', and 'Parautha' have hardly any important distinguishing feature. These could easily be merged into bread baked in a central bakery. Yet, the worker insists on his own provincial method of cooking and on provincial spices. Canteen feeding in factories can be a big contribution towards nationalizing our tastes. In England and America, canteen feeding in factories is popular because it provides healthy and cheap nourishment and saves so much labour spent in individual cooking.

A well-supervised canteen with scientifically cooked food has many virtues to commend. Cleanliness is guaranteed. Vitamins in the course of cooking could be conserved. The meals could be made even cheaper. Thus with cheap and healthy food, labour colonies could be insured against epidemics. The uniformity in preparation will not only break the provincial walls, but the common dining hall will also break caste and communal prejudices. A common taste can lead to many other solutions. The canteen system on the lines of Europe and America could, therefore, be adopted in India with great advantage.

But there are many other reasons for such low per capita production in India. The chief cause is extremely poor, inefficient tools and lack of education of the worker.

### **Low Standard**

India being a poor country, she can buy only cheap products which in the long run may not be at all cheap. Indian manufacturers are thus compelled to resort to cheap raw material, cheap machinery, cheap wages and bad working conditions.



Better material, better stores, better machinery, better working conditions, i.e., air-conditioned sheds, etc., and an eight-hour day, proper medical care, higher wages and arrangement for technical training of workers mean higher cost of production. Who will pay this higher cost? The Indian consumer, being too poor, is not in a position to buy more costly, though more durable, goods and the manufacturer cannot afford to lose. Our cheapness thus is our curse.

It follows that for increased per capita production leading to higher wages and other virtues, higher purchasing power is necessary. We must get out of the present vicious circle. How to do this is the object of planning. I need not discuss that in this talk.

But one thing is clear. We definitely need better tools and equipment though they may be costly. India in her present condition cannot buy from abroad more efficient but costly equipment. The only solution is to produce—at least to strive to produce—capital goods in India. It will take time before we succeed. But no big task can be completed unless it is begun. We should, therefore, begin our march in this direction.

### Want of Education

We have no idea of how lack of education among workers has banged all doors on their and the nation's progress. Production suffers because the labourer is unable to acquire modern knowledge to fully develop his initiative. He needs better education to work more complicated tools. Thus his own career is stunted on account of his illiteracy.

Lord Nuffield is perhaps one of the richest men in England, if not in possessions, at least in earnings and charities. His total charities exceed something like 40 crores of rupees. He is one of the biggest car pro-

ducers in England, running nearly a dozen factories of various sizes. Now, this Lord Nuffield was an ordinary worker earning only Rs. 20 per month. As he was not satisfied with his lot, he started his own shop—a cycle repair shop—and gradually expanded it, until it became a giant concern. But he would not have reached this position had he not acquired new knowledge and new education.

He had a fairly good school education. But while working during the day, he took technical courses at night and thus became in time a good engineer. Could he have risen to this position as an uneducated, illiterate man? Certainly not. I do not know of one man in India who has from a worker risen to a very high position. It is because our workers are illiterate that with all their ambition to rise they find it impossible to do so, due to the lack of facilities to acquire knowledge of modern production. If some of them have a smattering of elementary education, they cannot build much on such a slender foundation.

### Need For Night Schools

There are no night schools or colleges for technical courses where a day-worker with ordinary education can receive special training and aspire to become eventually a manager or a director. This lack of educational facilities has caused a tremendous national loss. The loss has not been only to the worker who is deprived through circumstances—not of his own creation—of an opportunity to achieve a higher position, but also to the industry which is deprived of the direction of managers who are not mere theorists but have risen to the top from the position of workers knowing all the secrets of the trade.

The managers and technicians in India know little



of the actual work. They know plenty of theory but little of practice. I know of good engineers in India who will be helpless without a mistri. That is because they never had the opportunity to work with their own hands.

Our young men generally aspire to learn in order that they may have to work less. In England and America a man learns in order that he can do better work. Our wrong psychology could be changed only if real workers got the opportunity of increasing their knowledge and eventually acquiring the position of bosses. The State alone can make arrangement for this gigantic task of educating labour in the three R's and also in technical work.

### Mass Production Methods

There has been much talk about the mass production methods of England and America. India undoubtedly is very backward in this respect. It should not be forgotten, however, that for mass production a country must have mass consumption. America makes nearly 5 million cars a year. During my visit to the Ford Motor Factory, I drove into some of their important sheds in a car. Everything was on a huge scale. Their boilers had the capacity to produce half a million lbs. of steam per hour.

India too could produce on such a large scale if we had the same big market. Until we have a large number of purchasers, we cannot produce *en masse*. Ford and other big car factories in America thrive because one out of four men there has his own car. One out of four has a radio. Most of the families have got refrigerators. In England only half a million cars are produced against 5 million in America, because the car-owners in England are not as many as in America.

In India the person who starts a car factory should deem himself very lucky if he could sell and produce 20,000 cars a year in the near future. The difference between 20,000 cars in India and 50 lakh cars in America is too big to be ignored in any such context. Obviously, the methods of America or even of England cannot be introduced in India in all our factories.

### Curse of Cheapness

In the textile industry, to some extent, we have the mass production method. It is so because Indian industry is producing 4,800 million yards of cloth for which there is a market. Batas have introduced mass production methods in their shoe factories to some extent because there is a fairly large demand for shoes.

But for things like refrigerators, motor-cars, engines, turbines, electrical motors, one cannot aspire to introduce mass production methods in India in the near future. We have to wait until our purchasing power increases and the market expands.

And yet it is a fact that without introducing mass production methods, goods cannot be cheapened. Again we come up against the same curse—the curse of cheapness. Mass production methods alone can lead to cheaper costs, thus enabling the masses to consume more. But as consumption is low with poor purchasing power, we are held up. Again we face the question of planning, increasing our purchasing power to consume more and to produce *en masse*. But I do not want to deviate. We must realize that many of the good things are impossible for India unless we increase the purchasing power of the people, and the purchasing power of the people cannot be raised until we have large-scale industrialization. When will that be?



### Business Management

I may say a word about management. Business abroad is no longer a close confine of commercial men. It is run by commercial talent in the closest co-operation with technicians and scientists. In one of the factories of I.C.I.\* out of 5,000 workers, 2,000 were university graduates!

Research work is conducted on a large scale by all important industrial concerns in the West. Millions are spent by private enterprise as also by the Government. And research is not confined merely to serious subjects like engineering, chemistry or metallurgy, but also to problems like workers' fatigue, consumers' taste, display of goods and advertising. We may even wonder why such subjects as the effect of cosmetics on the fiancée or of colour in dress on the psychology of husbands are included. But then, these queer countries of the West neglect nothing.

\*Imperial Chemical Industries.

## TERLING BALANCES

"The Indian people had made very great sacrifices, not only for the achievement of their own independence, but also as a supplier of food and other vitally needed goods to Britain and America during the war. These essential articles could at that time have been used for India's own development, but she had given to the Allies in expectation that in time she would get economic benefit from that assistance."

—PANDIT JAWAHARLAL NEHRU,  
*at a banquet in New York on 20th  
October, 1949.*





## INDIA'S WAR PROSPERITY—A MYTH\*

**T**HE Hon. Sir Jeremy Raisman, while introducing the budget for 1940-41 in March last year, thought that India was then passing through what he called "a tide of war prosperity." In March this year, while introducing another budget, i.e., for the year 1941-42, he was less enthusiastic about the so-called "tide of war prosperity." The prices of agricultural products had, since the introduction of his previous budget, fallen. All the same, he thinks that "this recession has been magnified in some quarters to undue proportions." He adds that "continuance of prosperity was dependent on our ability to export freely overseas."

One wonders how such erroneous views could be held even by so eminent a person as the Finance Member who should certainly know better. Is there anything like "war prosperity" for a country associated with war? And does our prosperity depend on our ability to "export freely overseas"? Mr. J. M. Keynes, the eminent British economist, uttered a gospel truth when he said: "Imports are receipts and exports are payments. How, as a nation, can we expect to better ourselves by diminishing our receipts?" India has for years been exporting more than she has been importing—as a rule the reverse is the case with Great Britain who has been importing more than she has been ex-

\*Reproduced from the Searchlight of April 15, 1941.



porting. Yet India is as poor as she ever was, whereas Great Britain, an object of envy to all the European nations, looks prosperity personified. I wonder why in England no one ever stressed the necessity of maintaining a favourable balance of trade, viz., of maintaining an export surplus, if that position alone was the road to prosperity, while in India the slogan that our prosperity depended on our ability to "export freely overseas" has been dinned into our ears so much so that the belief has become general that Indian prosperity is a matter not of consuming more but of exporting more.

The Commerce Member recently ridiculed the slogan "industrialise or perish." He may well do so but he cannot alter the fact that "industrialise or perish" is every time a safer slogan to adopt than "maintain an export surplus and prosper."

But slogans, however misleading, do leave their effect on uncritical minds. It would appear that like the slogan "maintain an export surplus and prosper", another slogan, "war is bringing prosperity to India", has begun to affect the popular mind. The reference by the Finance Member to the "tide of war prosperity," coupled with the drawing of misleading pictures in the Anglo-Indian press that India was prospering economically due to war and war orders, has made the man in the street think that it may after all be so.

Let us, therefore, examine the facts.

### What Prosperity Means

First of all, let us be clear in our minds as to what we mean by prosperity. Is prosperity proved in a man who eats enough to maintain his bodily vigour, who covers himself adequately to protect himself from cold and who has a decent shelter to live under? Or is it proved in one who has not enough to eat, who goes

about half-naked and who lives under a leaky roof, because whatever he produces he is compelled to sell so that he may be able to meet his liabilities such as rent or interest?

I assume the answer is clear. Prosperous is the man who consumes adequately enough what he produces and who lives decently, and not the man who produces only to sell. And what applies to a man also applies to a nation. Nations aspire, and rightly too, to consume more and not to export more. India's export surplus is only an expression of the necessity in her case of practising self-denial in order to be able to meet her external obligations. These arise from various causes, and the total has been variously assessed—the indisputable fact about it being that it exceeds by far the balance of trade or transactions in India's favour. The excess finds re-investment here and to that extent there is a postponement of liability. But there are the Home Charges as well as salaries and pensions and profits annually withdrawn out of India, and it is to meet this part of our total liability that it is essential for us to maintain a surplus of exports over imports. As things stand at present, an increase in the surplus means no more than the fact that in a particular year we have, willy-nilly, met our foreign obligations to an increased extent. But it is not enough that we maintain our solvency, that we live and sweat for our creditors. What is wanted is that we live increasingly for ourselves, that we work for a higher standard of living for our masses—for a fuller life for the entire nation.

Judging by this criterion, let us see how far has India progressed economically during the war.

In 1934-35 the excess of exports over imports (merchandise) was Rs. 2,092 lakhs—say 21 crores. For



the next year, the corresponding figure was about 2½ crores. In the year 1940-41 the export surplus is estimated at about 40 crores. This does not show that we have consumed more. On the contrary, it shows that we have consumed less. And if we have consumed less, how could it be said that economically we have progressed?

But it could be rightly argued that the volume of our exports and imports alone is not the correct measure of our consumption. Our total production plus imports minus exports is the total quantity available for consumption. And if this available quantity in a certain period be greater than in another period, the population remaining stationary, then we could be said to have raised our standard of living. The latest census figures show an enormous increase in our population, that is, nearly 15 per cent. Has the quantity of commodities available for consumption also increased in the same proportion?

The following are some of the figures of Indian consumption:

	1930-31	1939-40
1. Kerosene oil	227,852,049 gallons	222,000,000 gallons
2. Sugar (refined)	1,121,000 tons	1,074,311 tons
3. Cotton piecegoods	601 crore yds. (1932-33)	616 crore yds.
4. Matches	18,489 gross of boxes.	21,969 gross of boxes
5. Postcards sent	540,779,698	371,895,000
6. Number of third class passengers	550,879,000	513,533,900

This is an alarming picture. The population in the last decade has gone up by 15 per cent., yet the total consumption of sugar, kerosene and postcards has gone down. The number of third class passengers has dropped. Consumption of cotton piecegoods is almost the same. All this leads to but one conclusion—the per

capita consumption of almost everything in which the masses are interested has gone down.

How is it then proved that economically we have gained due to the war? War is like the ill wind that blows nobody any good. It cannot create prosperity in countries associated with the belligerents. Yet, a national government, had one existed in India, could have, by wise and judicious methods, saved the country from the direct evils of war, its extravagance, its evil economic effects, and could also have given a turn to national industry and enterprise so as to increase the productive capacity of the country.

#### What National Government Would Do

What would a national government do to make the best of a bad job?

First of all, it would plan internal production so as to minimise India's dependence on export.

The second thing that a national government would do is to see that the producer gets a fair price for what is exported.

Thirdly, it would see that for our sales of commodities abroad we are not compelled to accept payment in a form or shape we really do not want.

Fourthly, it would see that we produce and sell abroad things for war requirements that suit our economy and give us the maximum and not the minimum advantage.

Fifthly, our own defence would be financed in a manner which would not hinder but would accelerate our industrialisation.

We take the first point first. Our agriculturist to-day has to depend for the disposal of his produce on foreign countries. The Bengal cultivator has to sell jute and buy Burma rice. Short staple cotton has to be ex-



ported. Groundnuts and seeds have to be exported, while the Indian cultivator is being starved of fats and dairy products. We export hides and skins, while almost the whole country goes without proper footwear. Bonemeal is exported, while we need fertilisers so badly. These few items are given by way of illustrations which could be multiplied. A wise government will plan production carefully and scientifically with due regard to the needs of the country. We shall export, but only what we do not need and what others need. We shall not export what we ourselves need badly and what we can consume. We should not export such goods as could be converted here into manufactured products. Groundnuts could give us edible vegetable oil that we badly need, and cakes for cattle and also for manuring. Hides and skins we need for our own footwear. Rice which we ourselves need perhaps could be substituted for jute and some other foodstuffs for short staple cotton. We shall have to plan these things. This will require substituting one kind of production for another.

A cynic may argue about the difficulty of the job. Difficult undoubtedly it is to change the lifelong habits of a people. But what miracles have not been wrought under the benign influence of a national government? To suggest difficulties is only to advance an argument in favour of the establishment of a real national government.

### Fair Price for Exports

We shall now consider the second point. When we sell for export, we must safeguard the cultivator's interest and ensure for him a fair price. Unfortunately, Government have not only taken no steps towards this end but have, on the other hand, allowed certain things

to happen during the war which have seriously impinged on the interest of the Indian producer. I shall cite only two examples, elaborately described by Mr. A. L. Ojha in his presidential Address delivered at the last meeting of the Federation of Indian Chambers of Commerce and Industry.

Immediately after the war started, it was announced that export of wool would be allowed only to Liverpool—not even to the U. S. A. The price of wool thereupon fell. Strong representations were made to Government against this policy, as a result whereof exports to the U.S.A. were allowed, though only on a quota basis. The quota fixed was low, although the demand from the U.S.A. justified a much higher figure. In consequence of this policy, there has been an accumulation of stocks of wool and a deterioration of its prices as compared with the prices obtainable for a similar quality of wool in America. Who is now responsible for the loss to the Indian wool producer?

Let us see how His Majesty's Government dealt with the wool producers of the Dominions. With the Governments of South Africa, New Zealand and Australia, Great Britain entered into an agreement for the purchase of the entire wool clips of these countries for the duration of the war and of one wool clip thereafter. The prices reported to have been offered under these agreements are as high as 40 per cent. over the pre-war level.

Similar deals were made by His Majesty's Government in co-operation with some of the Dominion and Colonial Governments with regard to the purchase of the entire exportable sugar crop of Australia, the Union of South Africa, Mauritius, Fiji and the British West Indies. Sugar in India at that time was rotting in godowns. The cane crop in this country has to go un-



consumed because the Indian market is not large enough to absorb the entire production. And yet our export to overseas markets is banned because the Government of India, without any *quid pro quo*, have bound themselves down not to export any sugar overseas. Is this the way to protect the interest of the sugar producer or of the cane-grower?

Even in respect of the Egyptian cotton crop, the British Government made certain concessions to help the Egyptian agriculturist. But in India all the actions taken were in an opposite direction. Groundnut is one of the commodities which depend largely on export. Due to war, the Continental markets were closed to it. The British Government is even now a buyer. They could have helped India, as they did the Dominions. But what did they do? Instead of utilising the services of the Government of India, they appointed their own independent agents who sold to them at the rate of £10 per ton and paid the Indian producer at the rate of £7-10 to £8 per ton and pocketed the margin. The matter, when brought to the notice of the Commerce Member, was rectified, but only after a lot of mischief had been done. A national government would never have allowed such a thing to happen.

### Payment for Export

Then we come to the third point. We would legitimately demand the payment of the value of our exports in a manner best suited to our economy. We may not ask the value of our sales in gold since we know that that would be a very inconvenient process for England to adopt at this stage when she herself needs gold so badly. But if India shows consideration for England's convenience, surely England should not take any undue advantage of India's political subjugation.

We have been paid so far not in gold but in sterling. Even for our gold exports, which have been allowed despite repeated protests, we are paid in sterling. It may be pointed out in parenthesis that in 1939-40 alone the net export of gold amounted to 36 crores. And when large reserves of sterling accumulated on our account in England, those reserves were utilised to pay off our old debts in sterling long before they were due for payment. Why should we have been in such a hurry to redeem our debts when they were not even due? Even for our own defence we need money, part of which we have raised in India through borrowing. And yet while we are borrowing in India, we are paying off our debts in England which have not even matured. Is this a policy that suits or serves Indian economy best?

### **Sterling Debt Repatriation**

The contemplated repatriation of sterling debt amounts, according to the Finance Member, to Rs. 145 crores. Why should we not utilise these sterling resources in purchasing things like plant and equipment to start new industries in India? We may not demand the value of our exports in gold but surely we can legitimately ask, firstly, that our own gold resources be conserved, and, secondly, that we be paid in such commodities as would help us in establishing ship-building yards, motor manufacturing works, heavy chemical industries, etc. It should have been possible for England, in her own interest, to bodily transport many existing plants to India to India's ownership and thus create producing centres in India, immune from war attacks. Why did all this not happen? One asks: Is England, even in the midst of this life and death struggle, unconsciously perhaps, thinking more of her selfish, and not imme-



diate but distant and yet dubious interests? Should she not, even now, encourage India to be self-sufficient in respect of her important imports? One of the members of the Eastern Group Conference made a statement which confirms the suspicion that even now England and other Dominions are afraid of India getting industrialised. He said:

"It is manifestly unwise in time of war for one part of the Empire to start some war industry *de novo* if another part has so far passed the stage that it can supply the needs of the whole by the extension or development of its existing resources. That is simply a waste of time and effort."

Australia just now is rapidly building up ship-building yards and expanding her production of aircraft. Canada is receiving orders from His Majesty's Government for building up ships for the British Admiralty. And yet India is discouraged from embarking on any substantial programme of industrialisation. One wonders why what is sauce for the goose cannot be sauce for the gander. But perhaps the Dominions are both the gander and the goose, and India is neither the one nor the other. A position such as this, however, would never be acceptable to a national government which would not allow our claim to our due share of the sauce to go by default. It will refuse to keep India a mere granary. It will refuse to let this country remain a mere hewer of wood and drawer of water for Great Britain. It will insist, without causing any undue embarrassment to Great Britain, on the maximum advantage being gained by her in the situation in which she finds herself.

Thus we know what scant consideration has been shown to our economics during the war. The position was bad enough before the war. But the war should

have taught Government the necessity of changing their plans about India, even in the interest of England. But, unfortunately, there is no flexibility, no imagination, no foresight, no wider outlook to be seen. The same rigidity and the same narrowness of mind prevail today as did ever before. If anything, they are worse. There is no planning of production. There is no facility for disposal of the exportable surplus. The prices, therefore, have in many cases failed to respond to the newly-created demand. In many cases they have depreciated. And our sale proceeds have been utilised not with a view to the expansion of our industries. Our gold resources are frittered away when they could have been used for buying plant from America which would have been to England's advantage.

### Financing the War

In spite of all these, industries—through the sheer enterprise of the Indian industrialist—would have taken a long stride towards expansion had not the method of financing the war expenditure put a definite check on such expansion.

It will be worthwhile at this stage to understand the distinction between the technique of financing the last war and the technique of financing adopted in this war. The last war was mainly financed by borrowing. The total British expenditure from 2nd August, 1914, to 31st March, 1919, was about £9,539 million of which about £6,861 million was raised by borrowings and only 28 per cent. raised through taxation. As a result of this, the rate of interest during the last war, within 24 months of its commencement, had gone up as high as 6 per cent. About the end of the war, it had gone further up. On the other hand, during the present war, the rate of interest in England is still 2½ per cent.



All this shows that a different method has been adopted this time, and it looks as if the present war may be financed by England to a greater extent through taxation. The total expenditure incurred by the British Government in 1940-41 amounts to nearly £3,800 million. Of this only £1,400 million was raised through taxation—the balance appearing to have been left uncovered. There would seem to be a strong feeling in England against a policy of inflation and hence efforts have been made to increase the taxation further in the budget for 1941-42. It is doubtful, however, whether even this increase in taxation will satisfy the man in the street who is extremely anxious to see the war financed through greater taxation. Advanced public opinion has been demanding in the name of justice and equity that a much larger portion of the expenditure should be met by taxation and not by borrowing which must lead there to inflation. The British Exchequer, therefore, if not completely meeting the public demand, is at least making serious efforts to meet it halfway. This is a step in the right direction for which there is good reason.

It is estimated that the total annual income of England at the present price-level, provided all the man-power there is fully employed, is roughly £8,000 million per year. Out of this income of £8,000 million, Government alone commands for war purposes, according to the latest figures, nearly £5,000 million. No doubt, out of the £5,000 million that Government spends, a substantial part goes back to the country to form the annual income of the people. All the same, the fact remains that Government controls as much as £5,000 million for expenditure and thus the choice of expenditure for such a huge sum lies with Government alone. The people are left the choice of expenditure

only for £3,000 million. Thus the huge purchasing power that the Government controls makes it a serious competitor of the consumer in the commodity market. If this competition is allowed to go unchecked, there will be a serious rise in commodity prices. And the only method to check this competition is to reduce the purchasing power of the people.

### England and India

The war has to be financed either through the inflationary process, viz., borrowing, etc., or through taxation. If it is financed through borrowing, etc., then all the consequences of inflation have to be faced. Prices must rise but not wages in the same proportion. Apart from the injustice to the wage-earner and the fixed income-holder, more appropriately called the rentier, such a policy would lead to heavy profits for the manufacturer and the producer, big and small, and will thus give an extra purchasing power to all the producers who consequently will become serious competitors of the Government. Once the ball of inflation is set rolling seriously, there is no stopping it. A vicious circle would be set up which will do incalculable injury to the even and equitable distribution of the burdens. The money so earned by the producer and the manufacturer due to Government action may go back to Government through loans, but at a higher rate of interest, thus creating fresh burdens for the future tax-payer. And if the ball of inflation begins to roll faster, even the manufacturer and the producer, with all their profits, will fight shy of lending money to the Government. The Government in England, therefore, to avoid all these pitfalls of an inflationary policy, is resorting to taxation measures to a degree to avoid creating any extra purchasing power, and thus avoid any competi-



tion between the private buyer and itself. And this is the right course to adopt for England where it is desired that the prices may not rise unduly and where it is further desired that war expenditure being very high the burden should not be allowed to spread unevenly.

But can this policy be adopted for India where the premises are different, where there is need of raising prices, where extra purchasing power is needed for the agriculturist and also for establishing new industries, and where war expenditure being much smaller in proportion to the British expenditure, there is no danger of any inflation setting in?

Then there is another distinction between England and India. A large percentage of the British masses is composed of workers. In India a percentage as high as 75 is composed of producers, viz., the agriculturists. Higher prices may not suit the English wage-earner, but that is just what is needed for the Indian agriculturist.

And apart from this distinction there is the distinction between British and Indian industries. The former is in full adolescence, the latter is only in its infancy. What is good for an adult cannot be good for a child. We have to nurse the child and work the adult. If we work the child, there would be no adult existing even to be nursed. And yet this is what the Government of India is now doing.

If the annual income of England, on full production, be roughly £8,000 million, the annual income of India may be roughly 3,000 crores of rupees. Rs. 75 per capita is the general estimate per year and 40 crore persons multiplied by 75 is equal to 3,000 crores of rupees. And what portion of it is controlled by the Governments, Central and Provincial? Say a little over 200 crores. While in England the Government has

commandeered 5,000 million out of 8,000 million, here the problem is much smaller since the Government commandeers only 200 crores out of an income of 3,000 crores. One should not run away with the idea that since Government takes only 7 per cent. of our total annual income, we are very lightly taxed. One should not forget that the income of £8,000 million feeds only 46 million mouths in England, whereas 3,000 crores has to feed 400 millions of human beings in India. The smallness of the ratio of the Government expenditure to the total income only proves that there is no danger here of inflation even if the budget needs are met, not through taxation, but through borrowing. And yet the Finance Member has gone one better in India than did the British Exchequer in England. It appears out of a total budgeted sum of £3,800 million in 1940-41, the British Exchequer raised only £1,400 million through taxation. Here, out of a total budget of a little over 200 crores, as much as nearly 186 crores is to be raised through taxation. England raises only less than 40 per cent. of its expenditure through taxation: India raises as much as 93 per cent. The Finance Member has completely adopted for India the advanced non-official British point of view that is being advocated as based on British economics. Here the Indian point of view is totally rejected. Since we have no Swadeshi Government, we must import our economics too from abroad. Sir Kingsley Wood, the British Chancellor of the Exchequer, introducing his budget for 1941-42 remarked that "quite frankly the object of the taxation proposals was to make a considerable cut in the purchasing power during the war." Our Finance Member has adopted this plan of cutting the purchasing power of the people in India with a vengeance!



### Purchasing Power

What is really needed here is the creation of extra purchasing power for the producer through war economy in order to increase the productivity of the country. It is the small protection, tardily given only after the last war, to cotton mills that helped the industry to oust Lancashire from the Indian market, although it took nearly 70 years in all to perform the feat. With greater protection it became easier for sugar to oust Java from India in a shorter time. In a socialist State the same object perhaps could be achieved through different methods and different means. But our economy being what it is, until a new order is ushered in, the profit incentive is the only solution for industrialisation. And the Government has killed that very incentive, viz., the profit incentive, the only means in India of industrialisation. The Excess Profits Tax and the increased Income Tax, which between themselves take away nearly 80 per cent. of the profits earned, hardly leave any incentive for new enterprise. Even in England there is loud and persistent agitation against the Excess Profits Tax. It is said that the manufacturers have no incentive left for larger production and are not putting forth their fullest energy. Thus, it is said, war needs may suffer. This may or may not be correct. But in India, where incentive is needed for new enterprise, to kill that incentive is the greatest disservice that could be done to the cause of increased production.

People here seem to think that the Excess Profits Tax is of no import to the ordinary man, that it is the capitalist alone who pays it. Farthest this is from the truth. Apart from its bad consequences from the point of view of the industrialisation of the country, which must affect the economics of all and sundry—the pro-

ducer, the labourer, the middle class, etc.—it also affects the consumer to a considerable extent. Analysing the effect of the Excess Profits Tax during the last war, the Committee that was appointed to investigate the results of various economic factors during the war of 1914-18 reported:

"The Excess Profits Duty was a well-intentioned tax, but unfortunately it gave rise to very unexpected evils, under conditions of scarcity. Generally speaking, it was passed on to the consumer; it became an indirect tax on commodities. Whilst scarcity conditions remained, and until the slump in trade, it was the practice of manufacturers and traders, in fact, of all who were likely to be subject to the tax, to fix the selling price of goods they offered for sale at such an amount as would yield them a substantial net profit after payment of **Excess Profits Duty**. In connection with this matter, the Report (CMD, 858, p. 4) of the Committee appointed to investigate the prices, costs, and profits of the manufacture of Yorkshire Tweed Cloths contained the following statement: In practice we find that Excess Profits Duty is added by manufacturers to the prime cost of the article and is an important factor in putting up prices."

Here as there, human nature being what it is, history is bound to repeat itself.

Our Finance Member seems bent on milking a heifer. The heifer needs feeding and nursing. But the Finance Member wants to milk before the heifer calves. Such is the economics of our wooden government. A national government would not permit this blind following of the technique rightly employed by England for herself. It will truly stick to the slogan "India First."

If, of course, we had one.



## II

### SECURITY OF INDIA'S CREDITS\*

Just over a decade ago, the European Chambers stated in their evidence before the Simon Commission that the total investment by Great Britain in India amounted to about one thousand million pounds sterling and that with such a huge stake the Britisher in India could not consent to the power of governing the country being transferred to Indian hands.

For a few years, while the Government of India Act was on the anvil, Europeans in this country continued to emphasize the importance of their stake and demand various safeguards in the new Constitution.

And the safeguards were granted.

#### Schuster's Estimate

One cannot say whether this estimate of the foreign debt of India as one thousand million pounds sterling was quite correct. But it was not far from wrong. When presiding over the annual session of the Federation of Indian Chambers of Commerce and Industry in 1929, I asked the then Viceroy, Lord Irwin, who attended the session to inaugurate its proceedings, as to how India was going to repay the debt, and pleaded for a policy of greater production in this country in order to curtail its imports and promote its exports. I discovered to my surprise that it did not suit an

\*Reproduced from the Hindustan Times of July 17 and 18, 1942.

Englishman always to repeat or be reminded of the figure of £1,000 million sterling.

Sir George Schuster, who also attended the session of the Federation, refuted the correctness of the figure and quoted on the authority of the League of Nations that the correct amount which India owed to Great Britain was not £1,000 million sterling, but something about £600 million. Subsequently, it was discovered that the League of Nations had received these figures from the Government of India as compiled by Sir Findlay Shirras. In other words, the Government in quoting the League was quoting itself.

Whatever might be the correct figure, it was clear that India's debt to Britain was much more than £600 million sterling. And it was supposed to be a big problem as to how this huge debt would ever be redeemed.

Who could have then thought that within a period of a little more than a decade India would be changed from a debtor to a creditor country?

When the leading Clive Street organ *Capital* remarked in 1930 that the march of retreat for Clive Street had begun, it said this perhaps to frighten Clive Street into clamouring for greater safeguards. All the same, what it said, not perhaps with deliberation, was the truth.

### No Longer Debtor

India today is no longer a debtor. She is a creditor country, her debtor being Great Britain. But while India was a debtor she was also a dependency of Great Britain. So she is today, although she is now a creditor country. And therein lies the danger. Can a dependency force her ruler to be straight? India has redeemed her debts. But will England pay her debts to India



as India did to England? With the past still fresh in every Indian's mind, can it be surprising if there is a little distrust about the security of India's credits?

As mentioned above, India owed at one time about £1,000 million sterling to Great Britain. This represented loans raised by India in sterling, rupee loans held by Britishers, and commercial investments by British merchants in India. Out of this, the Government of India sterling loans alone amounted to Rs. 472 crores in 1929. Commercial investments too were then very large. There were large investments by Britishers in industries like jute, coal, tea, paper, cotton, sugar, engineering, steel, banks, etc. But after the year 1930, the Britisher began to dispose of his investments, and before the commencement of the war a large amount of commercial investments had been transferred to Indian hands. Sterling loans before the war stood at the figure of Rs. 465 crores. During the present war our exports have been large, and imports small. In 1939-40, 1940-41 and 1941-42, our total surplus exports amounted to Rs. 209 crores. This includes export of treasure in 1939-40 and 1940-41, but not in 1941-42, for which figures are not available. These figures do not also include exports on Government account, visible and invisible, which are said to amount to Rs. 400 crores since the war began. If all these are added together, the total surplus exports from India would amount to anything like Rs. 650 crores since the beginning of the present war. The resulting financial position is as follows:—

Public Debt	..	..	Rs. 180 crores
Commercial Investments	..	..	.. 70 ..
			<hr/> .. 250 crores
Sterling Assets	..	..	Rs. 350 crores
Bank Investments abroad	..	..	?
			<hr/> Rs. 350 crores

Though our surplus exports amounted to anything like Rs. 650 crores, our sterling debt was reduced only by Rs. 285 crores. Even after making allowances for so-called "Home Charges" one fails to get a correct explanation as to what happened to the rest of our surplus.

It will, however, be seen that India has paid her debts in a manner no other country in the world has done. Her debts were not the creation of her own free choice. They were created by her rulers not in India's but in England's interest.

Why should have India financed the Burma war, the Afghan campaign and so many other campaigns? A huge sum of Rs. 150 crores was given away to Great Britain by India as a "free gift" during the first war. A free gift indeed by a starving country to a prosperous nation! But India was not the mistress in her own house. So even those expenses during the first war which should reasonably have been debited to the British Exchequer, were debited to Indian finances.

### **Rs. 900 Crores Due to India**

The committee appointed by the Congress in 1931 to analyse the debt position in India claimed that nearly Rs. 900 crores out of the expenses incurred by India on England's behalf from time to time should have been debited to the British Exchequer. This itself would be sufficient to wipe off all our foreign debts. If the case were to go before an impartial tribunal, there would be a substantial adjustment in our debt position, and a large sum would have to be recovered from England. The fact remains, however, that things were undertaken by India's rulers which had no relation at all to her interests. And all this led to the mounting up of the Indian debt.

In spite of all this, she has now paid her debt fully



—unlike England, who repudiated her debts to America.

### Foremost Need

India did not default.

When England repudiated her war debts, India could have claimed proportionate relief in her debts to England. But she did not make any such claim. Now that she has paid, and has become a creditor country, is she not entitled to get an assurance that her interests would adequately be safeguarded in a manner satisfactory to her? British interests clamoured for safeguards and opposed the grant of self-government to India because of their investments in India.

What would they say now?

They have, of course, no ground for any safeguard. Nor have they any ground for refusing to part with power. They never had.

But without discussing politics, we are entitled to say that our past experience does not encourage us to leave our sterling resources entirely to the care of the present Government.

### Immediate Transfer of Finance

What is it then that we should demand?

The first thing that we should insist on is that the Finance Department should immediately be transferred to the hands of an experienced Indian with independent views. When the country is demanding Independence and a National Government, this proposal should indeed appear to be too modest. It is. Independence would no doubt come in time. So would a National Government. But the transfer of our finances to Indian hands cannot wait. We have nothing personal against English Finance Members to say. But we

simply cannot trust them to stand up against the behests from Whitehall. We have reason to believe that the Government in Whitehall are not very pleased with the present situation, which has turned India into a creditor country and made England her debtor. The plank for safeguards is gone. Many other arguments against India's freedom are also gone. And to Whitehall this is not a convenient position.

Is it to retrieve this awkward position for Whitehall that the Finance Member has gone to England?

In this connection, it is necessary to recall the events that took place during and after the first war. During that war, from 1914 to 1919, our total surplus export amounted to Rs. 76 crores per annum or Rs. 380 crores in the aggregate during the five years. There was no restriction on the free movement of goods during the last war, as we are having during the present one. The result was that against our total surplus exports of Rs. 380 crores in five years, we were paid in gold and silver to the extent of Rs. 255 crores. The rest, perhaps, went towards our so-called "Home Charges."

We would have been still better off had we had the finances of India under our own control.

### **Prosperity to Bankruptcy**

First, the free gift of Rs. 150 crores! That would not have happened. Then, a number of items debited to the Indian Exchequer during the last War would have been avoided. Our position vis-a-vis England would have thus been far more favourable to us than it was. Yet as it was, it was a better position as compared with the arrangement in this war. In the last war, our visible exports were paid for in gold and silver. Therefore, the position was not very unsatisfactory. But even this position did not suit the economics of



England. And the prosperity of India immediately after the war began to dwindle. We had built up a reserve of gold and sterling securities amounting to Rs. 122½ crores at the termination of the war, viz., in 1919. Our sterling loans then amounted to Rs. 304 crores. This was not after all a bad position. But it did not last long. The exchange manipulations and various other adjustments brought down our gold and sterling resources from Rs. 122½ crores to about Rs. 4½ crores in 1931, and our sterling loans went up from Rs. 304 crores to Rs. 472 crores in 1929. British investments increased. How?

The high exchange and deflationist monetary policy followed by the Finance Members in the teeth of public opposition meant low industrial activity, low exports, budget deficits and borrowing in London at high rates which amounted to 180 million pounds sterling. Thus the will-o'-the-wisp of a high exchange policy brought India from a fairly balanced position to the verge of bankruptcy in 1931.

The late Mr. Madon,\* Mr. Wadia, the redoubtable Sir Purshotamdas, and others including myself cried hoarse. The country echoed. But the caravan marched on. India by the end of 1930 was bankrupt. All this happened during the regime of British Finance Members.

### No Dearth of Men

We have no desire to have a repetition of the old experience. Sir Jeremy Raisman has flown to England to discuss certain adjustments. Can he be trusted to stand by Indian interests? We are not quite happy over this flight. We understand Sir T. E. Gregory has followed him. All this is bound to cause uneasiness in

Mr. B. P. Madon of Bombay who came to the fore as a critic of the Government's exchange policy in 1919 and subsequent years.

the minds of Indians.

Sir George Schuster recently said in one of his speeches that he could not conceive that an Indian capable of taking charge of Indian finances was not available in India. He was correct. We have Purshotamdas, Tata, Ardeshir Dalal and many others. Even in the present expanded Council we have Mr. N. R. Sarker who looked after Bengal finances eminently well.

There is no dearth of men. It is sheer distrust that precludes Indians from entering the sacred precincts of Finance. Distrust begets distrust, and since we are distrusted, we are suspicious.

We must have an Indian Finance Member.

The ways in which the Government manipulate our finances are so subtle and so mysterious that, however vigilant we may be, we can obtain little indeed unless the control of Finance becomes our responsibility.

### One Account

The second thing that we have to do is to create one account, an amalgamated account with Britain, and not to allow debits and credits to function separately. In other words, though, taking the net position, India is a creditor country today, she is a debtor under certain heads and a creditor under others. We are holding sterling in the Reserve Bank to the extent of Rs. 350 crores. Here we are a very large creditor. Against this, we owe to England in sterling loans to the tune of Rs. 180 crores. Then there are private commercial investments probably not exceeding Rs. 100 crores which is our debt. Against this, Indians have large deposits in Exchange Banks which are not employed in India. There are also insurance policies in British Insurance Companies held by Indians, the funds against which



are employed overseas.

All these debits and credits should be brought together so that a net balance-sheet of our position can be prepared. And we should treat all financial commitments with England as one whole. This would mean that all the private investments of Britishers will be pledged by Great Britain against our credits.

Our net credit may not be very large just now. But we must have an amalgamated account which is one and indivisible. Otherwise, there is the danger of our credits being dissipated and our debits remaining constant. So it happened after the last war.

We might be told that this was not practical. But did not the United Kingdom mobilize all her dollar resources, both private and public? Can she not similarly mobilize all the rupee resources, both private and public, and pledge the same against her debts to India? If it could be done in respect of dollar resources, it could also be done in respect of rupee resources. Further, did not South Africa secure the shares in her gold mining industry previously held by British interests?

Let not any squeamish people raise their hands in horror at this unorthodox suggestion. The savings of an Indian are his life-blood. They are all invested and have to be duly protected. If England owes to us a debt, it is only fair that private British investments should be pledged against that and that we should be saved from the vagaries of sterling fluctuations.

Finally, what is needed is arrangements for safeguarding future accumulation of our sterling resources. Is it not a fact that the war is waged by Allied Nations? Why then should we not insist that our future accumulations should be in dollars and not in sterling?

### **Lease and Lend**

We are not yet acquainted with all the implications of the Lease and Lend policy. England perhaps is largely benefited by this policy. But she has entered into certain agreements the terms of which would not suit her if they were to be applied to India. Besides, we do not know how far the Lease and Lend agreement will affect the Dollar-Sterling exchange in the post-war period. Sterling in terms of dollar may, after the termination of the war, depreciate substantially. We cannot, therefore, take any risk.

Let us remember this. The fact that we have paid our debts and become a creditor nation does not in the least indicate any prosperity in India. On the contrary, India's standard of living has of late fallen substantially.

India has been starving but has, nevertheless, paid her debts. Her credit is the result of her hard toil, though with an empty stomach. It will be criminal if the leaders do not watch her interests with vigilance.

### **Duty to Country**

There is the duty of the Directors of the Reserve Bank in this matter. We have full confidence in some of our Directors. We have an experienced and able veteran in Sir Purshotamdas. We have no doubt he is doing his duty. But it is time that he and his colleagues took the public into their confidence and told us what they are doing to see that our sterling resources do not become a mere paper asset. And what are our Honourable Members doing? They have a duty to the country which they doubtless know.

Have the Members of the Viceroy's Council given full power and discretion to the Finance Member to make any adjustment that he likes in respect of our



financial relations with England? Will he consent to any expenditure on war being debited to India when, morally, it should go to England? It has been suggested that he can work only within the limits of the formula enunciated by him in his budget speech.

What is the formula?

The Finance Member said that "India is to bear (1) a fixed annual sum representing the normal net effective costs of the Army in India under peace conditions plus (2) an addition to allow for rises in prices plus (3) the cost of such war measures as can be regarded as purely Indian liabilities by reason of their having been undertaken by India in her own interests and (4) a lump sum payment of one crore of rupees towards the extra cost of maintaining India's external defence troops overseas."

One or two points are rather vague and may have wide implications.

It has been reported that since the above formula was decided upon "the war situation has changed. At that time India was far away from any major theatre of war. Now the Indian Command will have to be prepared for major operations. As this will mean considerable increase in expenditure, the question of re-allocating war expenditure has to be revised in the light of present conditions and future needs." This sounds very ominous. Are our Members vigilant?

### Non-official Delegation

When Sir Mohammed Zafrullah proceeded to England to negotiate a trade pact between India and England, he subjected himself to a self-denying ordinance and appointed a body of non-officials to help him in his negotiations. They discharged their task well. And it must be said to the credit of Sir Mohammed that in

most matters he stood by their advice.

It is the distinct duty of the Indian Members of the Viceroy's Council to urge on His Majesty's Government that in such delicate negotiations the Finance Member alone cannot be relied upon to protect India's interests. Why should not these adjustments, whatever they may be, be negotiated with the help of a non-official Indian delegation appointed specially for the task?

Let the country and the Honourable Members remember that India today is free from debts. But if we are not vigilant, we may become a debtor country again.



### III

#### INFLATION OR SCARCITY?\*

The phenomenon of high prices with the hardship which it spells has of late come in for a good deal of analysis, as a result of which some have told us that at the root of our present suffering is inflation arising from payments made to us by our foreign customers. Inflation is said to exist because of the quantity of notes in circulation having gone up from 179 crores in August 1939 to 590 crores by 22nd January 1943. The cry has been taken up by all those who are perturbed at the quick rise in the price-level and the subject has been going the round of the press.

Price fluctuations are naturally most distasteful to society which wants stability in the relation between debtor and creditor, between producer and consumer. But while various remedies have been advocated in the past to achieve this stability, not one country has so far tried them with success. And so long as no effective way to stop the fluctuations is discovered, these ups and downs must continue with their consequential inequities.

The nature of the inequities arising out of these fluctuations has to be clearly understood. When prices rise, they benefit all producers—the agriculturist, the manufacturer and all others who produce goods in their cottages. At the same time, they injure all those with

\*An article contributed to the press in February 1943.

fixed incomes like the landlord, the zemindar, the salaried class, the money-lender and the labourer. When prices fall, the process is reversed, and while rentiers and wage-earners are benefited, the producers are hard hit.

The former class, namely, the producers, constitute perhaps 80 per cent. of the total population in India. The agriculturists alone constitute 70 per cent. of the total. The latter class, namely, the rentiers and the labourers form only 20 per cent. The interests of the two classes, in the narrow sense, are not quite identical, and so what benefits the one, injures the other.

When these rises and falls occur, this inequity is, to some extent, rectified by voluntary mutual adjustments. For instance, when due to a rise in prices wage-earners feel the pinch, they demand higher wages and producers agree to meet the demand since they belong to the class which is directly benefited by the rise. On the other hand, when prices fall, the wages are, to some extent, reduced, but since land revenue and other charges like rent, interest, etc., remain fixed, the producers are not compensated to the full extent of their loss. The voluntary adjustment is thus only partial.

Of the period 1899-1939, the first half was, broadly speaking, a period of rising and the second half a period of falling prices. When the ascent began in 1899, the all-India weighted index number was 121 (1873=100) and the peak was reached in 1920 when it came to be 302. But most of the rise took place during the last war when the prices advanced from 187 in 1914 to 301 in 1919. In 1921 commenced a decline the memory of which must be fresh in many minds. In 1939, the index number stood at 134. The outbreak of the present war brought about a recovery and by July 1942 the index



number had gone up to 200 and by November to about 250. This, incidentally, shows that we have not yet reached the peak that was attained at the end of the last war.

During the period of falling prices when the greatest sufferer was the agriculturist, there was a chorus of complaint from all quarters against the inequity from which he suffered. We were told that prices must be made to rise and the agriculturist given relief in respect of his debts and other obligations. And as a matter of fact, he was given some relief. Acts were passed in various provinces dealing with the question of rural indebtedness, and rents were, to some extent, scaled down. Now, since prices have begun to rise, we have been complaining against the inequity from which the poor have to suffer because of the high prices that they have to pay for the satisfaction of their needs.

It may sound paradoxical, yet both the complaints are justified. Justified, because the agriculturist and the poor man are only interchangeable terms. He suffered then and is no better off now. The higher prices have not raised his standard of living. If anything, they have further lowered it because of the reduced supply of consumable goods. The poverty that was there has only been intensified. While, therefore, we complained in a period of falling prices in the name of deflation, in the period of rising prices we are complaining in the name of inflation.

And yet inflation is hardly the root cause of our trouble which in reality arises from an insufficiency of goods for the consumption of the people. That insufficiency was there during the period of falling prices. It has become accentuated now because war is eating up a large proportion of the goods that should have been available for civilian consumption. No amount of de-

flation, that is, reduction in the volume of currency, can make more food or more cloth or more goods available to the people. This is a simple truth which should be realized by all those who seek commonweal. It does not require any expert knowledge to understand this. The real problem is not inflation, but scarcity of goods.

A wrong diagnosis leads us nowhere except to a pitfall or an abyss. And I fear this cry against so-called inflation, instead of against the growing scarcity of goods, is the outcome of our having gone wrong in our diagnosis from a too ready adoption of some imported slogans.

### A False Analogy

People in the U. S. A. and U. K. have of late been talking of the evil of inflation and its remedy or remedies. And rightly so, in view of their peculiar position. But our problem is totally different from the problem of those well-off countries, and it is not right that some of us should not only be repeating the anti-"inflation" slogans which are current there, but should also be suggesting that the methods adopted in those countries be ruthlessly applied here.

What are the methods adopted in England to check the rising tendency of prices? They are as follows:—

1. Greatly increased taxation. Taxes have been so devised as to make them fall on every class—from the rich to the poor.
2. Compulsory investment in Government loans.
3. The rationing of commodities and the fixing of their prices to ensure that people do not consume beyond a certain limit.

In England since all available man-power is employed in producing goods for war purposes, there is no scope for any increase in production to satisfy civilian



needs. Naturally, what is being sought and planned there is a curtailment of civilian consumption. Since the appetite is sharp and the food available inadequate and since more food cannot be produced, what they are planning there is an imposed dyspepsia so that the craving for food will be automatically reduced and what is "inadequate" will be rendered "adequate."

If we are to imitate British methods, we have to enforce this self-denial on the Indian consumer. That would, of course, mean making the burden of taxation heavier still, putting a ceiling on wage-earner's wages, taxing the consumer's purchases, compelling even the lowest paid to invest a part of his earnings in Government Bonds and restricting his consumption in accordance with a rationing scheme. But is this the way to remove want and privation, to promote general welfare and happiness? Certainly not, and yet we are asked in all seriousness to believe that this is the solution of our problem, that to ensure our safety and our welfare, we must go the British or the American way. It has not been realized by those who advocate these methods that there is a great contrast between the two positions, the one in England or America and the other in India.

In England the standard of living was high enough to permit during war-time a large curtailment of consumption. In India people are at the bottom of the economic ladder and are too starved to stand any further starvation. In England there is no unemployment indicating scope for increase in the production of goods. In India there is plenty of forced idleness which makes the planning of new production an easier task. This is the glaring contrast which those who would imitate British methods should have realized and which they have not done.

What is the solution then?

### The Real Evil

In trying to answer that question, we should see whether the increase in currency is the evil or it is the lack of commodities that is the real evil; whether the plan adopted in the U. K., that is, deliberate curtailment of production, is conducive to the good of India where consumption is already so low; whether increase in production is not the only possible and the most beneficial solution of the present dearness problem. And we should examine the whole question from the point of view of our own interest, irrespective of what countries like the U. S. A. or the U. K. have done or are doing.

Have we really inflation here?

As we have said above, our note circulation which was about 179 crores in August 1939 had gone up to 590 crores by 22nd January 1943. That there was an increase of 411 crores in the circulation is, we are told, clear proof of inflation.

I would not go into the nicety of the distinction between the terms "inflation" and "expansion". One wonders whether in view of the bad odour of the word "inflation" as it came to prevail in post-war Russia and Germany, it would not be more appropriate to call the increased circulation in our case by the name of expansion. Our issue is fully covered by sterling, the purchasing power of which has not so far depreciated.

I do not for a moment suggest that sterling as the backing of our notes is a desirable asset or that the method of payment by His Majesty's Government for their purchases is one which we could approve of. In fact, I have strongly criticized both the things, privately and publicly. I have suggested, as I do now, that we must be paid for our sales not in sterling but in some durable assets or gold or dollars and that since sterling may seriously depreciate after the war, it is most un-



desirable to keep our assets of the Issue Department in that form. I have even suggested that our sterling wealth should be fully secured, if by no other means, at least by relating it to the present U. K. price index number. But this does not alter the fact that sterling at present is solvent and our currency at the moment does not lack an adequate backing. To call this position "inflation" may lead people into believing that like the German mark or the Russian rouble, the rupee has gone insolvent, which it certainly has not.

### Process of Acquisition

How did we acquire these huge sterling assets?

The visible balance of trade in India's favour in recent years has been as follows:—

	Merchandise.		Treasure.		
	(Crores of rupees)				
1939-40	49	+	30	=	79
1940-41	42	+	10	=	52
1941-42	79	unavailable		=	79
					<hr/>
			Total		210

All this was on private account. Over and above this, we sold goods and services for which Rs. 258 crores were received from His Majesty's Government. Thus to the end of March 1942, goods and services of a total value of Rs. 468 crores were sold for which we were paid in sterling. Actually, from the beginning of war to the end of 1941-42, a total of Rs. 582 crores (including 64 crores as the carry-over from August 1939) was acquired in sterling the disposal of which was as detailed below:

	Crores Rs.
1. Sterling amounts utilized for repatriation schemes up to the end of March 1942	218
2. Other sterling commitments	80
3. Sterling holdings of the Reserve Bank at the end of March 1942	284
	<hr/> 582

The process of our exports, both visible and invisible, exceeding our imports has continued, leading to the further acquisition of sterling by us. For 1942-43, the net acquisitions by us were estimated at Rs. 219 crores after allowing for the repayment of the remaining undated sterling loans and the payment of about Rs. 17 crores for the purchase of the B.N.W. and R.K. Railways. No wonder that for the week ending 22nd January 1943, the sterling holdings of the Reserve Bank in both the Issue and Banking Departments, showed an accumulation to Rs. 424 crores.

Now, could we have been paid for our goods in any of the following ways:—

1. In gold.
2. In dollars.
3. In sterling.
4. In commodities.
5. By repatriation of our sterling debts and British commercial investments in India.
6. By raising rupee loans in India on behalf of H.M.G.
7. By forcing India to make a free gift to H.M.G.

Let us take the first alternative. Let us assume that we were a free country and could insist on the U.K. paying us in gold. And let us also assume that



the U.K. had the capacity to pay in gold and so it agreed and actually paid us in gold. To the quantity of our note circulation, could that make any difference whatsoever? It is clear that the so-called inflation would even then come into existence, although we could not expect to have a more valuable backing to our currency than gold.

It may be argued that gold would be taken over by the people and that since it would not pass into the vaults of the Reserve Bank, there would be no need to issue notes against the gold acquisition. This argument, however, would be ignoring the fact that though at one time India used to absorb gold and silver to the extent of several crores per year, that is no longer the case. Since 1931, instead of hoarding gold and silver India has been selling or exporting them. So even with payment in gold the rise in the note circulation could hardly have been averted.

Similarly, even if we were to be paid in dollars, the Reserve Bank Act would have to be amended as to enable the authorities to issue rupees against dollars just as they do now against sterling and gold.

In the case of (4), since ultimately there is only an exchange of commodities, no necessity arises for payment in money and so there would hardly be any expansion of currency.

So far as (5) is concerned, repatriation of sterling debts has been made and repatriation of British commercial investments in India is being pressed for. But even after all these repatriations, the problem of finding finance in rupees for the purchases on behalf of the Allied Nations will continue to need a solution.

In the case of (6), payment is deferred to the day when the loans will be repaid, and there would be no immediate occasion for an expansion of currency.

But it is a mistake to suppose that this method can be successfully adopted here to any such large extent. Existing conditions in the country preclude the possibility of any very large absorption of loans by the public as is proved by the Government's experience in connection with the second Defence Loan.

In the case of (7), there will be no payment whatsoever, immediate or deferred. But can India afford to make such a gift and go without payment for the supply of goods and services to this extent? The conditions under which she might have a surplus after feeding and clothing her own millions do not yet exist and the alternative is mentioned here merely as a theoretical possibility.

It is true that under certain conditions, namely, under (4), (5), (6) and (7), there would be no need or occasion for any expansion of the currency. But could anybody seriously contend that because of no expansion of currency, there would be no rise in prices?

### **Reduced Supply of Goods**

India never had nor at present has any such abundance of commodities as to assure her a high standard of living. There are, undoubtedly, great potentialities, but even in war-time very little has been done towards their realization. The supply has been just what suffices to meet India's bare needs. And now for Defence purposes there is an additional demand which is being met by drawing upon the available Indian supply, without increasing production to any appreciable extent. This withdrawal of goods is causing a definite gap in the supply and is reducing the dividend which has so far been available to the Indian consumer. This is the hard reality which has got to be faced.

Mr. Richard Stone—an authority on the subject—



has compiled a very interesting table showing how in U. K. and U. S. A. private consumption has in war-time given way to Government consumption. Here is the table:

Proportion of net National Income at factor cost devoted to various purposes.

(Net National Income = 1.00)

	Consumption.		Govt. goods & services		Net Investment.	
	U.K.	U.S.A.	U.K.	U.S.A.	U.K.	U.S.A.
1938	0.75	0.81	0.18	0.18	0.07	0.01
1939	(a)	0.78	(a)	0.18	(a)	0.04
1940	0.66	0.75	0.52	0.18	—0.18	0.07
1941	0.57	0.70	0.62	0.22	—0.19	0.08
1941 1st qr.	(a)	0.72	(a)	0.20	(a)	0.08
2nd "	"	0.72	"	0.20	"	0.08
3rd "	"	0.69	"	0.22	"	0.08
4th "	"	0.67	"	0.26	"	0.07
1942 1st "	"	0.65	"	0.32	"	0.03
2nd "	"	0.60	"	0.41	"	0.01

(a) Not available.

It will appear from this that in the U. K. private consumption that was at .75 in 1938 had gone down in 1941 to .57. On the other hand, Government consumption that was only .18 had jumped up to .62. Figures relating to 1942 are not available for the U. K. But they must be very alarming from the point of view of the private consumer. In the U.S.A. Government

consumption has doubled since 1941 and private consumption has recorded a further drop of 15 per cent. between 1941 and 1942. What would be the position in India? No figures are available. But who could deny the truth of the statement that Government consumption has made serious inroads into the amount of goods available in pre-war days to the civilian population?

The supply is reduced. That plainly means that the Indian consumer has to tighten his belt further and produce more unless he wants to starve. How on earth a reduction of the note circulation from 590 crores to 179 crores can possibly mean more cloth, more food, more salt, more kerosene, more cement or more wood? How, if one fine morning the Government decide to withdraw 400 crores of notes from circulation (and it could be done by various injurious methods like heavy taxation and heavy borrowings), will that eliminate the distressful sight of long queues waiting for hours before grain shops to get a few seers of wheat? How can this simple measure of cancelling a few hundred crores worth of notes create an abundance of all goods? Not even the most learned in such matters can tell us how. You may arbitrarily reduce prices, tax people so as to drain off the last drop of their blood, you cannot create more goods unless either you produce them or His Majesty's Government and other Allied Nations stop drawing on Indian goods for their needs. Of course, we can always create an abundance by imposing dyspepsia on the consumer if that be something desirable. Else, in order to meet the situation, we must produce more. There is no getting away from this simple fact.

Rightly did Sir James Taylor observe in his speech at the Shareholders' meeting of the Reserve Bank held in August, 1942:—



"Though there has been a considerable rise in prices in India, I do not consider that this is the result of the increase in the currency, but rather that the two phenomena together are the unavoidable result of the large purchases of goods and services being made by the British Government in India for which they give us sterling which we exchange for rupees. Unless this increase in purchasing power can be met by an equal increase in the supply not only of the articles being directly purchased by the Government but also of the food-stuffs and other necessities of life.....there is bound to be an increase in commodity prices in this country."

which is, undoubtedly, the bare truth of the whole matter.

### Fall in Velocity

That the increase in the currency is not responsible for the rise in prices may appear to be a statement flying in the face of the Quantitative Theory of Money, but then it has to be remembered that the Theory itself has some important qualifications and the increased quantity cannot explain the rise where the currency is deprived of a chance to function as money and thus bear on the price-level.

Attention may be called here to certain facts and figures relating to the currency circulation and Bank Deposits. An appreciable part of the recent additions to currency has been hoarded or immobilised—which means that the velocity of circulation of money has diminished. A pointer in this direction has been the marked fall in the ratio of bank clearings to demand liabilities of Scheduled Banks, specially in recent months:

Period	Average Demand Liabilities of Scheduled Banks.	Indices	Total of Clearing House Returns.	Indices.	No. of times
1938-39	123.8	100	1929	100	15.6
1939-40	132.6	107	2211	115	16.7
1940-41	155.8	126	2019	105	13.0
1941-42	202.0	163	2569	133	12.7
1942-43 (first 8 months)	333.0	269	1635	82	4.9

If we compare the figures for the first 8 months of 1942-43 with those of 1938-39, we find that while the amount of demand liabilities increased by 169 per cent., that of bank clearings actually decreased by 18 per cent. Assuming that the velocity of bank deposits is a fair index of the velocity of currency circulation, the figures show that in 1939-40 (when the velocity was 16.7), 179 crores in circulation functioned as  $179 \times 16.7 = 2989.2$  crores, but that recently (when the velocity had come to be about 5) 950 crores functioned as only  $590 \times 5 = 2950$  crores. According to the Report on Currency and Finance for 1940-41, the fall in the velocity of note circulation was probably even larger than the fall in the velocity of bank deposits. In other words, currency is not as effective as it was in 1938-39 or 1939-40. In the circumstances, one may well ask: How can there be inflation when the additional currency mostly lies idle and does not play any monetary part? The mere presence of money can no more secure goods or raise their price than the mere presence of gun and ammunition can cause destruction of life. Life can be destroyed only if the gun and the ammunition are used to that end. Similarly, money can secure goods and raise their price only if it is used for payments. So far



it has not been used, at least by the private consumer, to the extent which its volume seems to suggest.

### **Contraction of Currency**

While we talk of the expansion of the note circulation, let us not forget the contraction which has occurred in respect of the metallic currency by reason of rupee and other denominations of coin having been either withdrawn from circulation or hoarded or melted—a point which has been generally ignored in recent discussions. The mintage of rupee coin was resumed after a lapse of several years in 1940, but the additions made in that manner seem to have been more than offset by the withdrawals. For instance, the recent mintage and issue up to the end of March 1942, amounted to about Rs. 28 crores as against which the withdrawals from 1939-40 to 1941-42 of silver coin came to over Rs. 65 crores. The amount of rupees outstanding at different times has been variously estimated. According to one reliable calculation, it was 165 crores in 1939. What has happened to that currency? Very little of it is visible to-day, and to the extent coins have disappeared, notes have merely taken their place and cannot be said to have exercised any special influence over the price-level. If notes of the value of 400 crores have been added, coins of the value of at least 103 crores have gone out of circulation. Over and above which, there has been a hoarding of notes.

### **A Larger Volume Needed**

Those who are in touch with actual business know that since war started, credit has ceased to play its customary part in the settlement of claims and consequently most of the buying and selling is now done on cash basis. In pre-war days the resort to hundis, or

bills of exchange, on a fairly large scale obviated the need for cash remittances from one place to another. But things are quite different now. Due to Government's demand for all kinds of goods the volume of sales and purchases has increased; the hundi is not trusted to the same extent; and transactions are mostly for cash.

Take the case of a small thing like a stretcher or a camouflage net. Before the article is delivered in finished form to Government, more than half a dozen transactions of buying and selling have to take place. The goods do not go straight from the original seller to the ultimate buyer who is Government. The process is not complete without a number of middlemen, sub-contractors and labourers coming into the picture. The larger the scale on which buying and selling is done, the greater is the need for the currency.

Experts say that during the last war only three men were needed to equip and maintain one soldier, but that the number has now gone up to 10. If this estimate is correct, then for the Indian army alone something like one crore of workers must be variously employed—leave alone the number employed for the supply of goods and services to the Allied Nations. At any rate, an appreciably large number happens at the moment to be employed on war work of all kinds, and one can well imagine the need for additional currency which this must cause in a country where payments through cheques are confined to a few large towns and only for big transactions at that. That need becomes all the greater when cheque and credit largely go out of the picture and all or most claims arising out of purchases and sales come to be settled on a cash basis. It is difficult to make an estimate of the amount needed, but it would, undoubtedly, be very large.



The Allied Nations are drawing upon Indian resources to the extent of about Rs. 25 crores a month or Rs. 300 crores a year. The purchases made on their account are spread all over the country and the transactions relating thereto are numerous and at times too small. All the work—so scattered, sub-divided and manifold—has to be executed on a cash basis. Then we have to reckon with the fact that there is a steady flow of currency into hoards and the part that remains unhoarded has a reduced velocity. All this must mean a larger volume of currency than would otherwise be needed, and there can be no justification for taking an alarmist view of the expansion. If there is anything really alarming, it is the progressive reduction in the supply of consumption goods.

### **Rise and its Real Cause**

The fact that the country now possesses a greater purchasing power than before merely means the creation of a large body of potential buyers or consumers. But for a rise in prices to be effected, the mere existence of potential buyers is not enough. That clientele must come into the market, make its purchases and pay for the same before any rise can take place. Since it has not done so, the rise which has occurred is attributable not to the increased purchasing power but to the decreased supply of goods.

If we look at the progressive rise in prices of commodities, we shall be able to see clearly how this rise has been influenced by factors having little to do with the currency expansion. I give below a table showing the rise in prices of various important articles:—

	Oct./39	Oct./40	Oct./41	Oct./42
Wheat	2 9 6	3 2 3	4 3 3	5 1 6
Rice	5 2 0	5 0 0	7 0 0	10 6 0
Sugar	10 14 0	9 5 0	9 10 6	12 3 6
Groundnuts	30 2 0	24 4 0	28 4 0	49 15 0
Groundnut cake	2 5 0	1 8 0	1 8 0	2 8 0
Rapeseed	41 14 0	36 10 0	37 12 0	58 10 0
Cotton (Broach)	186 0 0	197 0 0	232 0 0	188 0 0
Indian piecegoods (long- cloth)	0 9 5	0 9 5	1 2 10	1 10 6
Jute raw (Firsts)	50 8 0	33 0 0	62 0 0	55 0 0
Kerosene	5 10 6	6 6 6	6 14 6	9 13 0
Skins, goat	135 0 0	95 0 0	130 0 0	120 0 0
(Crores)				

Notes in

circulation 210

229

293

511

It will be seen from the above that the first item to be affected by the war was food. For more than a year and a half, there was no appreciable rise in prices, although under the pressure of Government demand, wheat and rice had begun to get restive. By October 1941 the currency had expanded by nearly 38 per cent. Yet, the prices of sugar, groundnuts, rape-seed and skins were actually lower than when the war started. On the other hand, wheat, rice and cloth had gone up. Of these commodities, Government had come to be buyers and the rise in their prices had a direct relation to the Government's purchases. Cloth and foodstuffs are essential articles, and once their cost goes up, wages



must rise. And rise they did. This naturally led to an increase in the general cost of production and eventually all prices came to be affected. And yet by October, 1942 when the currency had expanded by nearly 143 per cent., there was practically no rise as compared with the rates at the commencement of war in prices of cotton, groundnut cake and skins of which Government were not buyers in the market. In jute, groundnuts, rapeseed and sugar there was only a small rise. The rise was mainly in food-grains (the prices given in the table are only controlled prices, actual prices in the black market were much higher) and cloth. Both of these commodities had become scarce due to Government buying and export.

The figures establish a direct relation between Government's purchases and the rise in prices. It is the increased volume of Government's purchases, not the potential purchasing power of the people, that is responsible for the high price-level. Should we, then, by way of applying a remedy, curtail private purchasing power and also private consumption? That will surely bring prices down. But the fall in prices will only be to Government's good, for the private consumer will have to go with still less. If half the population to-day were compelled to starve or it decided to starve itself voluntarily, prices must fall. But starvation cannot be the kind of relief that the country needs for its people.

### **Wanted—More Production**

I can quite understand the argument, if it is advanced, that Government's requirements must be met not by purchases in India but in other countries since there is no surplus available here. This may sound unpractical, but it is quite understandable. What is

difficult to understand is the suggestion that to relieve the hardship of the private consumer his purchasing power should be reduced. If there has to be such reduction in order to bring prices down, it should be in Government's purchasing power, but if that is not possible, then the only remedy is more production.

No amount of currency deflation or control of prices or rationing or enforced saving or freezing of income will solve the problem of dearness. The only solution is to produce more food and more cloth and more of other consumption goods.

One may ask: Can production be increased? I say with all the emphasis I can command that production could be increased, and enormously, if Government were capable of inspiring, planning, and mobilising the country's mind and capacity. And production must be increased if we are to avoid a catastrophic ending. But will Government make a move in the right direction?



#### IV

### GUARANTEES INDIA MUST HAVE\*

India is now a creditor country.

The term "creditor" connotes prosperity and the statement may, therefore, sound pleasant to our ears and even flatter our vanity. But, alas! the cold reality is that we are as poor as ever, even poorer. When for nearly 150 years we were a debtor, we were poor enough. Now that we are a creditor country, we are paradoxically poorer still.

Let us, at the outset, have a peep at the past and review the factors responsible for making us a debtor nation. Our conversion from a debtor to a creditor country is a recent happening with which we shall deal later on.

When one becomes a debtor, it means that one has borrowed something. That applies to a nation or a country as well. It is implicit in its indebtedness—assuming that to be a fact—that it must have received something by way of debt or loan. One cannot become a debtor without receiving anything at all.

What, then, did we receive to become a debtor country? I have examined the available figures of our foreign trade since 1864—which was just a few years after the Crown had taken over the government of India from the East India Company—but they

\*An article contributed to the press in March 1943.

do not show our having had at any time any such net import of goods in the shape of merchandise or of treasure as could be said to constitute borrowing on our part. On the contrary, we gave more than we received. From 1864-65 to 1928-29 our net export of merchandise amounted to Rs. 2800 crores and our net import of treasure to Rs. 1400 crores. Not only did we not receive anything from the U. K. to make us a debtor country, but, on the contrary, we placed at that country's disposal a surplus of goods worth Rs. 1400 crores which should have made us a creditor nation. The fact, however, is that we came to be indebted and remained so till the other day.

### Who Ate up the Surplus ?

How did that happen despite our export surplus amounting to Rs. 1400 crores over the 65 years? The answer to that is to be found in the fact that politically we were incapable of enforcing a fair deal. If in spite of the huge balance of trade in our favour, we found ourselves a debtor nation, it was because our Government took their orders not from us but from those who ate up the surplus we maintained. Our Government knew all the time that India never received the real value of the surplus she had to part with. But they did nothing to get the wrong redressed. In fact, they would not even admit that the state of things involved any injustice to us. When we claimed the value of our goods, we were told that we were receiving certain services from the U. K. the value of which was far greater than the value of goods that we were supplying to that country. And the Government of India which is only a subordinate branch of H.M.G. meekly submitted to that view amounting to an award.



**'Services' to India**

But what were those services that we were told we received? They would have made some entertaining reading had we not had to pay for them in "sweat, toil and tears". Here are a few instances.

Beginning with the record of the East India Company, the "services" rendered by that body included the first Afghan War, the first two Burmese Wars, and smaller expeditions to China, Persia, Nepal, Ceylon, Malacca, Singapore, Java, the Cape Colony and Egypt. And India had to pay for all those "services" through the nose.

Before the Company went out of the picture, India was saddled with £40 million as the cost of the suppression of the Mutiny and with £37 million paid as the redemption of the Company's capital and dividends. Under similar conditions, other units of the Empire have been treated differently. The cost of the Boer War to England was never borne by the Union of South Africa, and when the rights of the Royal Nigeria Company came to be purchased, the compensation was paid by the British Exchequer, and not by the African territories concerned. The reason for this differential treatment is obvious.

Even after the Crown had assumed responsibility for the administration, the old tradition remained unchanged.

It was the same story over again of the forced exchange of goods for "services". And some of these "services" were extra-territorial wars or expeditions like Abyssinia (1867), Perak (1875), 2nd Afghan War (1878), Egypt (1882), Soudan (1885), and Burma (1886), each one of which meant a new financial burden imposed on India, though there could be no rhyme or reason for it. The inequity of the impositions was

so glaring that at times there were protests even from Englishmen holding important positions in public life, though the protests usually led nowhere.

### Extra-territorial Adventures

The pages of Indian history are bestrewn with instances of this kind of economic injustice. The cost to India of what is known as the "Forward Policy" on the North-West Frontier was once estimated at Rs. 71½ crores, inclusive of what India had to bear as the cost of the Afghan War of 1878-80. The cost with which India was saddled in respect of Burma's annexation was estimated at over Rs. 100 crores. But this was not all. She had to pay for the maintenance of the India Office in London. Even the maintenance of the Persian Mission and of Diplomatic and Consular establishments in China became the financial responsibility of India. For a number of years she had to bear in full, and subsequently in part, the cost of the administration of Aden—an Imperial outpost. When subsidies were given to British companies like the Zanzibar and Mauritius Cable Company and the Red Sea Telegraph Company, India was forced to bear part of the cost even though she derived little or no benefit from their work. The latter company was formed in 1858 on a guarantee from the British Treasury for 50 years. The line, however, broke down just a day or two after the services had commenced. In spite of this failure, the guarantee was converted into an annuity of £36,000 payable for 46 years, and India was made to pay part of this annuity with the result that by the time it terminated, she had paid over £829,000 exclusive of interest on the amount. The Zanzibar and Mauritius Cable was laid on



strategic grounds, connecting Mauritius and Seychelles with the outside world. The special advantage to India was practically nil, but she had to pay the company a sum of £10,000 annually for 20 years as her share of the subsidy. More amazing was the bill that India had to foot when the Sultan of Turkey happened to be on a visit to London in 1868 and an official ball was arranged in his honour at the India Office. A lunatic asylum in Ealing, gifts to members of a Zanzibar Mission, and part of the permanent expenses of the Mediterranean fleet were also charged to India.

How could these extra-territorial wars, expeditions and other adventures be said to have been undertaken in India's interest? What did India want them for? How were India's wishes in the matter ascertained? Questions like these remain unanswered, though that makes no difference to the fact that we had not only to pay for them but also to assume liability for the payment of pensions to those who took part in them and to those who failed to protect our interest and thus served us ill. The result was that with all the solvency we maintained and the huge total to which our surplus exports worked up, by 1929 we found ourselves owing to the U.K. a sum of money conservatively estimated at about £700 million. We had been subjected to heavy taxation for financing the extravagance of wars and other adventures; our export surplus of Rs. 1,400 crores had vanished into thin air; and to make matters worse, Destiny had burdened us with a debt of over Rs. 1000 crores. That in brief is the tragic history of how we came to be indebted.

### A Reversal

After 1928-29, however, there began a reversal of the movement.

The trade depression compelled England to go off the gold standard. India's rupee was linked to sterling and, therefore, sterling depreciation led automatically to the depreciation of the rupee. This in its turn led to the exodus of gold which this country had been absorbing for centuries and which it now began to disgorge. Exports began to increase. The gear was now reversed and we began to move further and further away from our position as a debtor country. Over the decade 1929-30 to 1938-39, India's export surplus came to be nearly Rs. 600 crores to which the war years 1939-40 to 1941-42 made an addition of Rs. 210 crores. If we include the figures for the subsequent months, the visible balance of trade in India's favour from 1929-30 to date may be something like Rs. 900 crores.

There has in recent years been a large "invisible" export represented by goods and services for which payments are made to India by His Majesty's Government. The total of such payments to the end of 1942 has been Rs. 505 crores.

Thus since 1929-30 to date we have made available to England goods and services worth about another Rs. 1400 crores without receiving anything tangible in return for them. This has enabled us practically to wipe off our sterling debt, and India now finds herself transformed into a creditor nation.

It is difficult to say what our credits abroad amount to. We know that the sterling holdings of the Reserve Bank in January last were Rs. 441 crores against which we had certain obligations. Besides those holdings, there are other credits a cor-



rect estimate of which we cannot make. For instance, we cannot ascertain the amount of Indian deposit money which is utilised by the Exchange Banks for advances abroad, or the extent of Indian funds invested or employed abroad by foreign insurance companies doing business here. The figures remain a mystery and attempts to elicit information have always failed. Against all this there are the British investments in India, which have been variously estimated. I am inclined to hold that the value of such commercial investments does not exceed 200 million sterling or 266-2/3 crores of rupees at present.

But whatever that be, the broad fact is that our credits exceed our debits and in the net result we are now a creditor country.

### Greater Poverty

But does that really indicate a state of real prosperity? I very much wish it did. But the truth of the matter is that it does not. In other words, the change of status in our case does not mean any lessening of poverty, of want or of privation. On the contrary, the poverty is deeper and the want and privation greater than before.

We have accumulated credits in sterling through a process of sheer starvation. We made the surplus available to England, not because we liked to but because we had to. Our standard of living was low enough, and we lowered it further so that England might have what she needed. The result is an all-round decline in our consumption of goods, including the necessities of life.

Let us take the two most important necessities of life, viz., food and cloth. What is our position in

respect of them? As far as cloth is concerned, ever since 1939-40 there has been a steady deterioration in the position. Confining our attention for the moment to mill-made cloth, we find that the quantity available for civilian consumption in 1942-43 has been estimated to be 2300 millions of yards as against 4634 millions of yards available in 1938-39—a reduction of nearly 50 per cent.

If the people have less to wear, they have also less to eat. The food situation has rightly begun to cause grave anxiety to large sections of the population, despite all the advertised achievements of the "Grow More Food" campaign.

An expert calculation showed that in 1935 there was no home-grown food for 48 million Indians. Since then the position has considerably deteriorated. It is no longer possible to import rice from Burma, Thailand and Indo-China which used to range from 1.1 to 2.6 million tons a year. While imports have ceased, our requirements have increased. There are more mouths to be fed not only in India, but also outside. Countries like Ceylon, Arabia, etc., which used to import rice from Burma have now come to look to India as the only possible source of supply. And Defence needs, here and elsewhere, have come to be a major factor aggravating the shortage of food.

We were told by the Government recently that the net gap in our total supply of food-grains during 1943 was not going to exceed two million tons, which means four per cent. of the total annual production. I do not think, in matters of this kind such statistics tell the whole of the story. The shortage is much more acute because this gap of four per cent. is not evenly distributed between the civil and military



sections of the population. The gap for the civil population is obviously, therefore, much bigger. This means greater starvation for the people at large than the four per cent shortage would seem to suggest.

Figures, if they were readily available, would tell the same tale of diminished consumption with regard to other necessities of life. There can be no gain-saying the fact, therefore, that such sterling balances as we have been able to accumulate are the result of our going short of several things, of our starving ourselves.

That being so, it will be criminal negligence if we fail to preserve our balances as a provision against the rainy day which sooner or later is bound to be upon us.

### A Comparison

Before I go further, I might usefully review what other countries in a more or less similar position have done with their holdings in sterling. Let us first take the Dominions.

Among the members of what is known as the sterling area who hold their external exchange reserves in sterling, there is no Dominion or Crown Colony which comes anywhere near India in respect of the size of those reserves. A Reuter's cable published in Indian newspapers towards the end of January last said:

"The repatriation of 31 million sterling Indian Railway Debentures only nibbles at the Indian Government's vast accumulation of sterling which during the year ended January 8 soared further from 214.2 to 308.3 million sterling despite the huge repatriations during that twelve-month period, including almost 60 million sterling paid

on January 5. Other countries' sterling accumulations are also growing. During the latest available twelve months, Australia's accumulation of sterling rose from £39 million to £59 million, New Zealand's £12 million to £25 million, Eire's £18 million to £93 million, though South Africa exceptionally holds the surplus in gold and almost no sterling."

Members of the sterling areas with the exception of India keep in London only the minimum sterling required for their short term requirements. South Africa, as this cable says, prefers to have practically no sterling and keeps its surplus in the form of gold—I mean the surplus left in its balance of payments after repatriation of Union debt held in Britain and of private British investments in South African enterprises, which process has already gone far and may be completed by the time the war is over.

### Settlement with Canada

Canada is not even a member of the sterling area—though it has been willing to hold part of its balances in the form of sterling. From the start of war to the end of March 1942, the British deficit in Canada was \$1,870 million, and the settlement made was in the following manner:

	Million dollars.
U. K. sale of gold to Canada	250
Official repatriation	714
Private repatriation	126
Conversion of sterling balance to loan	700
Conversion of sterling balance to gift	80

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1870



I have no desire to minimise the extent of the assistance which that Dominion—out of gratitude for the freedom it enjoys and out of its plenitude—has rendered to the mother country, but I may be permitted to make a few observations.

In the first place, 1870 million Canadian dollars are roughly equivalent to Rs. 561 crores, and to view things in their proper perspective, it should be noted that the goods and services supplied by India to the Allied Governments to the end of 1942 for which the country was made to accept payment in sterling, were valued at Rs. 505 crores. Since then there have, of course, been further additions to the amount.

The details of the settlement show that the Canadian policy in helping the mother country has been, in the words of one of its leaders, a mixture of idealism and "hard-boiled" business. Canada has taken payment partly in gold. Then, it has to a substantial extent cancelled its indebtedness to England by repatriating not only its sterling debt but also private British investments in Canadian property and enterprises. For the rest, it has accommodated its best customer by a loan, and subsequently by a gift of \$1000 million which is equivalent to about Rs. 300 crores.

So much for the important Empire countries.

There are countries like Argentine outside the Empire which have entered into arrangements with England amounting to acceptance by them of their dues in sterling. Let us see what the agreement amounts to in Argentine's case. In terms of the agreement between the two countries, all balances in excess of \$1,000,000 in Argentine's favour were originally convertible into gold. In 1940, this was replaced by an undertaking given by England that if

and when sterling came to depreciate against the dollar, the amount due to Argentine would be duly adjusted to compensate for that depreciation. This amounts to a virtual gold guarantee and is said to cover the whole spot and forward sterling position in Argentine's favour.

It is clear from the account given above that the treatment meted out to India has been something exceptional and that she has been compelled to accept payment for the supply of goods and services on a colossal scale solely in the form of sterling without any guarantee or assurance that her interest will be duly protected if that sterling ever comes to depreciate in relation to goods or gold.

### India's Unique Contribution

In January last an estimate by the *Economist* put the total of Empire and other sterling countries' sterling assets in England at about £600 million of which India's share, as I have just shown, came to over 50 per cent. That gives an idea of the extent to which this country has subordinated its own interest to Britain's, and contributed to the British war effort through the provision of goods and services on credit.

Ours is an impressive record on any showing. But it is unique because of the circumstance that we have made that contribution on an empty stomach. Countries like Canada or Australia or South Africa have had a much higher standard of living and a much larger dividend of consumption goods at their disposal. Naturally, the scope for economy or self-denial in their case has been considerably wide. For them the curtailment of needs has not been such a real sacrifice as it has been for India who has had to



stint and starve herself further in the effort to help the Allied cause on this scale. In any comparative study of the contributions made by the different Dominions and Dependencies, this aspect of the matter should not be overlooked.

But there is another aspect to this question. It is usual to assess the value of an effort or contribution of this kind in terms of money. But a fairer method will be to make the assessment in terms of human labour. And if the comparison is made on this basis, it will result in the first place being easily accorded to India and the unique character of its contribution being established as unchallengeable.

I have referred to the Canadian gift of \$1000 million. Some may want us to emulate that example. I wish the realities were different from what they are and the gift were not something which India can ill afford. But it should not be forgotten that even as things are, India is supplying a variety of goods and services at much below their market price. Jute goods, cement, steel, cloth and several other things are being made available to Britain at a price-level which compares very favourably with that with which the common consumer has to reckon. In thus supplying Britain with goods at a price cheaper than what Indian consumers have to pay, ours has been and remains a concealed gift the monetary value of which has not yet been computed. But the help rendered by us in that form is nonetheless substantial and its importance should be duly recognized.

In estimating India's contribution, allowance must also be made for the sale of many crores worth of silver at prices far below the market rate in India or in U.S.A. It is unfortunate that no exact figures are available as to the quantity of such sales.

### Safeguarding Balances

The question now is: What is it that we want—how could we best protect our interests in respect of our sterling balances?

The first thing that we should demand is an assurance from His Majesty's Government that under no pretext whatsoever our accumulations—those that exist and those that will accrue in future—would be allowed to be frittered away.

The experience of the last war in this respect is not quite happy. It is not unknown that during the last war, many items which, strictly speaking, should have been charged to the British Exchequer were charged to the Indian revenues. Had India been the mistress in her own house, exercised full vigilance and insisted on equitable accounting, the receipts by her in the last war would have amounted to much more than she actually received. But even then, whatever accrued was subsequently frittered away.

In 1919, that is, immediately on the termination of the war, India had in gold and sterling Rs. 122½ crores at her disposal. A good portion of it was squandered in the effort to maintain a fictitious exchange rate in the teeth of public opposition, with the result that the Rs. 122½ crores in 1919 had been reduced to Rs. 4½ crores by 1931 and the sterling debt had shot up from Rs. 304 crores in 1919 to Rs. 472 crores by 1929. Unless India remains watchful, history may repeat itself. We must be vigilant and must demand that no items should be charged to India's account that do not strictly concern the defences of her own frontiers; that there should be no segregation of our sterling funds for any purpose whatsoever, and no funding of pensions or earmarking of funds for the so-called post-war reconstruc-



tion. Our title to our holdings must remain absolute. Our credits are our own. None should have any right to tell us what we should or should not do with our funds. There can be no compromise on this point for any reason whatsoever.

But most important of all is the question of safeguarding our sterling balances against any depreciation of their value in future. No one can say what the position of sterling or dollar will be after the war terminates. And since India could ill afford a speculation in sterling, it is only fair that her savings in England accumulated on an empty stomach should be fully safeguarded against the vagaries of international finance.

The fact that we have so much accumulation in sterling is not a thing of our own choice. That we accepted sterling in exchange for our goods was because England was not prepared to pay us in a different manner. She could have paid partly in gold (even our own gold export was exchanged for sterling), partly in dollars (our own surplus export to America for which we got dollars was converted into sterling) and partly in goods. But she chose the methods which she found most convenient for herself, of paying in sterling—a method grossly unfair to India.

England's debt to India, therefore, is ethically not in sterling. It is in goods. To put it more correctly, the debt is in terms of human labour. India laboured hard to produce goods and then parted with them. She can, therefore, legitimately claim that she must be paid back the same quantity of human labour that she expended on the goods that she gave to the U.K. The least that she can rightly demand is that she should be safeguarded against any depreciation of sterling in terms of human labour.

How could India be safeguarded against a possibility of sterling depreciation? There are three methods:—

- (a) Converting our sterling into gold;
- (b) Converting it into dollars; and
- (c) Converting it into commodities.

Let us examine each of the three alternatives.

The position that gold will have in the post-war period is wholly uncertain. Gold is bound to retain its importance even after the war, but that importance may not be quite what it is now. Considering the pace at which science is advancing, one should not be surprised to find gold in disfavour at some stage. The value of gold is given to it by man and may be taken away by him. America's vaults are overflowing with stocks of the yellow metal and, naturally, therefore, she is interested in gold retaining its present important position. But will China and Russia too be interested in the same manner or to the same extent? It is doubtful.

We should not, therefore, tie our sterling balances to the apron-strings of gold.

The future of the dollar in terms of goods is as uncertain as of sterling. Already the index number of commodities in the U.S.A. has registered an appreciable rise. Moody's index of staple commodities there had risen to 232.5 by December 8 last. (1931=100). Prices and costs have since been rising. It would not, therefore, be advisable to fix the value of our savings in sterling in terms of the dollar which may depreciate further in relation to goods despite the ceilings recently imposed.

### Linking to Commodity Index Number

Considering everything, I am inclined to hold



that the best safeguard is to link our sterling balance with the U. K. commodity index number.

Let us understand its implications. At present the index number in England would be near about 135 which means a rise of 35 per cent. in the commodity-value since the commencement of war. When we gave our goods to the U.K., we must have parted with them at times when the average index number was near about 125. If our sterling balance is—for the sake of argument—linked with an index number of 125, it would mean that if sterling after the war depreciates and hence prices rise, say, to an index number of 250, our sterling balance is automatically doubled to absorb the fall in the purchasing power of sterling. The index number thus acts for us like a buffer to absorb the shock of all fluctuations in the value of sterling.

If the index number rises owing to a fall in the value of sterling and, in the terms of our agreement, our balances are doubled, does the fact that in terms of money India becomes a larger creditor and England a larger debtor mean a profit to the former and a loss to the latter?

All that happens is that India gets the same quantity of commodities as she would get if she could exchange her sterling for commodities at present. We parted with a certain quantity of goods the value of which is measured by the U.K. in terms of sterling. We have no predilection in favour of this method of evaluation. There may be a number of other methods of evaluating our goods and services. We would be lost in the maze of international finance over which we have no control unless we simply demand that when the time of repayment comes we should not get less of goods than we would

have got at the time we parted with our own. There is no perfect means or method of evaluating goods in terms of goods. But the method of evaluation by reference to the index number is the best under the circumstances. It may be improved upon by experts if the principle underlying the demand is accepted. In any case, we cannot afford to run any risk of exchange. We must, therefore, insist that at the time of repayment we should not on any account receive less of goods for our credits than the amount we could have got at the time we parted with ours.

Let us analyse how a debtor nation redeems its debt to the creditor nation. She can either export treasure or goods or services. When England pays off her debt to us, she has to accept one of these three alternatives. Obviously, we do not want any more of "services". Past experience is bitter enough. We could take only treasure or goods—most probably, capital goods which we shall need in any quantity after the war is over. But we do not want England to take advantage of her position as a debtor country and quote as prices for those goods out of all proportion to the prices prevailing at the time we parted with our goods.

### International Clearing House

A scheme has recently been prepared by a London economist (who has chosen to remain anonymous) with the implied support of Big Business in London and perhaps also of H.M.G. This scheme envisages an international clearing house after the war for financing and controlling all international trade and exchange. Besides this, the scheme recommends stabilisation of internal prices. The whole scheme is drawn from the point of view of England



and America. Asia or India hardly comes into the picture. The main principle underlying this scheme is that creditor nations after the war must accept goods in cancellation of their credits. The scheme is a sort of feeler put out by England to America. One can appreciate the anxiety of England as to the fate of sterling, her standard of living and her friendship with America in case America tells her, in the words of the author of the scheme :

"Packets of pesos, marks, francs and sterling are useless to me as they are only legal tender in their respective countries, and I do not wish to buy your goods. Your obligation is to pay me in my own currency, e.g., dollars. I realise that you do not manufacture dollars and that you can only acquire them by selling goods in my market. I propose, however, to stop you doing this by means of tariffs or quotas, but Heaven help you if you are not successful in your efforts to defeat me in my attempt to stop you paying. If you are unsuccessful, I shall sell your currency on the Foreign Exchange for what I can get, and knock your exchange rate down, so putting you through uncontrolled inflation. The alternative is that I loan you what you owe me at compound interest. This will, however, merely defer the day of reckoning which, when it comes, will be so much the worse."

I fully sympathise with this view. But if England be insistent that she must be allowed to pay in goods to America, why should we be less insistent on demanding from England: "We want your goods, capital goods and not packets of sterling the value of which may be uncertain. We have no desire to make any unfair demand. We only want that you

should not, owing to depreciation of your sterling, evade your dues and pay us only half or one-fourth of the goods that was our due, had we fixed our credits in terms of goods and not in terms of packets of sterling."

Is it feasible, ask some, to have such an arrangement? I maintain that it is.

Reuter's correspondent cabling on March 17, sends a very interesting commentary on the post-war currency plans recently discussed, specially between the U.S.A. and the U.K. It says:

"Some critics advocate the actual elimination of exchange risks which would make the scheme more acceptable to prospective surplus countries. Such elimination technically is feasible, and could be adopted from Britain's present arrangements with Argentine, under which Britain has undertaken automatically to adjust the amount of Argentine's sterling balances to offset any depreciation of sterling against gold."

"Elimination of exchange risks is possible", say some experts. I say exactly the same thing in reference to the exchange of sterling for goods.

If it is possible to tie Argentine's sterling to gold, it should be no less possible to tie India's sterling to the capital goods index number. Gold is nothing more or less than one of many commodities. There should, therefore, be no difficulty in linking our sterling with the index number of such goods on the line on which Argentine's balances have been linked with gold.

### **If Sterling Appreciates**

What if sterling appreciates? With the machinery of destruction working incessantly day and night, with the future so dark and uncertain, with years of



reconstruction ahead, with the best thinkers of the world busy thinking out solutions of the post-war problems of want, poverty, strife and unemployment, and looking to the future with trepidation and fright, it would be the limit of absurdity to talk of any appreciation of sterling. What if an old man becomes rejuvenated as a lad in teens? Only a bedlamite could talk like this. But if a miracle happens and sterling does appreciate—what then? Let us wish the joy of it to England and share her rejoicing if the improbable happens.

I have said above that in January last the Reserve Bank's sterling resources amounted to Rs. 441 crores. This amount will be substantially reduced if all public and private investments in India are repatriated. Repatriation of Government and semi-Government sterling debts is already being undertaken. But it is only fair that the private British investments in India too should be repatriated, thus reducing our sterling balances and eliminating the risk of exchange. This has been done in South Africa and in Canada. And England cannot take undue advantage of India's political subjugation and deny her what she was compelled to concede to South Africa and Canada.

Linking our sterling to the index number should not imply any restriction on the transfer of our savings from England to America or any other country after the war. All that it should imply is safeguarding our balances against their depreciation in terms of goods—such goods as will be needed by India.

### Our Demand

What, therefore, we must demand is: That all

British investments in India including the commercial investments be repatriated and that what remains and what accumulates hereafter be related to an equitable index number of goods to be agreed upon between the two countries. That these index numbers be fixed from time to time as further accumulations take place in a manner which ensures a stable value of our credits in terms of goods to be needed by us after the war. That England agree to repay all her debt to India within a certain period from the termination of the war. And that there be no obligation, implied or otherwise, on India to restrict her purchases to England to the exclusion of other countries.

In demanding all this, we would be demanding only the barest justice due to us.





## POST-WAR ECONOMY

"Light in the darkness, sailor, day is at hand!  
See o'er the foaming billows fair Heaven's land.

... ..  
Pull for the shore, sailor, pull for the shore!  
Heed not the rolling waves, but bend to the oar."

—I. D. SANKEY, *The Life Boat*.





## INDIA FACING ECONOMIC CRISIS\*

While the Government of India are engrossed in high politics—division of India, partition, transfer of power and all that—the economic conditions are deteriorating fast and, what is more deplorable, the Government of India have hardly any time to think of the serious situation towards which we are heading. Economics, however, have a knack of intruding themselves on our attention against our will and perhaps at a time when we are least prepared to face them.

Dr. Rajendra Prasad† has already raised an alarm about the food situation. The last crop, he says, has been bad on account of rust, and we shall get nearly two million tons less of wheat than what we expected. What is two million tons? It is only three per cent. of the total production. We had worse crops in the past and yet we managed. Why then so much fuss about it now? There is something wrong somewhere.

### Disturbing Statement

Dr. Dalton, Chancellor of the British Exchequer, has come out with a very disturbing statement. At a time when its implications can be more severe than at any other time, he has declared that England cannot repay her sterling debts in full. This statement, except for statements by a few business men, has com-

\*Reproduced from the Hindustan Times for May 30, 1947.  
†Food Minister at the time.



pletely gone unnoticed. Some of us have strongly protested against the attitude of Britain. But protest is one thing and the realization of our debt another. Our balances will be repaid only if England so decides. And evidently she has decided otherwise. The implications of this decision are very grave.

Our total note issue was Rs. 1,263 crores on May 1 against which Rs. 1,135 crores worth is held in sterling securities. Thus with one stroke of the pen a substantial backing of our currency—nearly 90 per cent.—is made to disappear. The currency is left without a backing!

The Reserve Bank of India holds another Rs. 475 crores worth of sterling against Governmental and private deposits. Thus nearly Rs. 1,700 crores is for the time being in suspense.

### **Production Problem**

Of course, we cannot under any circumstances agree to such a thing. We can, as a reprisal, freeze British investments in India. But this cannot help us in the least as far as future industrialization is concerned. These investments, even if expropriated, cannot give us any new industry or new production. These already exist. Mere transfer of ownership even through expropriation cannot give us any extra production.

For new production we need new plants. For them we need capital goods and various other things. Whether we can produce capital goods in India in course of time is a different problem. But I know we cannot produce all sorts of capital goods ourselves, at least for the next ten years to come and more complicated equipment cannot be manufactured by India with her own resources even for the next 20 years.

Thus for all practical purposes we must depend on imported equipment and also on imported technique and "know-how". For this we need foreign currency. We had built hopes on our sterling balances. These hopes are now completely shattered.

### Trade Position

There are only three big countries left in the world after war—America, England and Russia. Out of these only two have foreign trading. France, Czechoslovakia, Germany, Belgium, Switzerland and the Scandinavian countries, for all practical purposes, may be written off as non-existent from the stand-point of supplying us plant and equipment, except to a very small extent. Thus we are left to buy only in English and American markets. We have no dollars and the sterling will now disappear. How then shall we purchase capital goods needed for new production?

One alternative is to borrow abroad. If in the present unsettled conditions we rule out borrowing, then we must depend only on our own export surplus. What is our position in respect of foreign payments? It will be worth our while to examine trade figures. The following are the export and import figures for the period April to December 1946 :

Exports : Rs. 217 crores.

Imports : Rs. 200 crores (this does not include the imports of treasure.)

From this we see that if we take into consideration imports of treasure, we have no surplus balance worth the name.

The food scarcity has further aggravated our exchange position. We are reported to have imported food worth Rs. 90 crores during last year alone. Have we so much surplus exports as to be in a position to



pay for our food imports as well as for imports of capital goods in future? Dr. Rajendra Prasad when he was wailing over the difficulty of obtaining food-grains from abroad, was totally ignoring the question of payments. For all practical purposes we may have to rule out imports of food.

### **Need for Regulation**

For earning foreign currency, we shall have to regulate our foreign trade. We shall have to decide what to buy and what to sell abroad. By such regulation we may be able to create a reasonable trade balance in our favour. We are not in a position to sell much at present. We can sell raw jute, and manufactured jute Cloth and paper bags, however, are likely to be our serious competitors in this field very shortly.

We have not much cotton to export. If we export oil and oilseeds, which are edible in India, we shall reduce the nutrition for the people. We can export tea and hides and skins. Against this, we have to import petrol, oil and motor-cars and some other goods. All this will not take us very far towards earning foreign exchange.

### **Failure of Control**

What we desire to import in future from England or from America is a matter on which we should take immediate decision. And how are we going to regulate our foreign trade? Are we going to continue priorities and licences for import and export? We have tried this and failed. We have not got the machinery to regulate the international trade through priorities, permits and licences which create corruption, confusion and complications. This method is

thoroughly discredited. The only other method is to regulate trade through tariffs. But this is only discussing the method.

The crux of the question is that if our sterling balances are blocked, our currency will lose its backing and future plans for industrialisation will be completely sabotaged. We cannot create a large favourable balance of trade to enable us to buy capital equipment and food. Even with this object we have not done anything so far to plan a regulated foreign trade. And in the absence of our getting food and capital goods from abroad, food scarcity on the one hand and the scarcity of consumer goods on the other will continue to exist eternally until we are in a position to produce our own capital goods and more food.

### Fall in Output

So much about the future. What of the present? Are we making full use of our existing capacity to produce? No. I need not quote figures to show how production has seriously fallen all round. Various factors have contributed to the fall. The first was the reduction of working hours from nine to eight. This brought down the production by 11 per cent. Higher wages have contributed towards greater absenteeism of the workers which has caused another fall of 10 per cent. Added to this are strikes, curfew, flight of labour due to communal disturbances and such other factors, the cumulative effect of which is that production has gone down by nearly 25 per cent. to 30 per cent.

Our industrial wealth thus is substantially reduced. Due to communal tension, millions of refugees are flying hither and thither without work, adding to the unproductivity of the country. And above all



arson and destruction are taking a heavy toll of the existing wealth.

Some of the industrialists who tried to make up this deficiency by working factories and plants three shifts have been, by one of the provincial Governments, "advised" not to embark on this plan! We know the meaning of "advice" by Government. The future is jeopardised. The present is being devastated.

### **Increase in Expenditure**

But if the national wealth is going down, public and private expenditure is going up—the surest way to bankruptcy. Industrial wages are rising. The recommendations of the Pay Commission will increase the expenditure of the Central and provincial Governments and public bodies probably by nearly Rs. 50 crores to Rs. 60 crores. Its effect on private salaries and wages is bound to be not unimportant.

These increases in wages and salaries are fully justified. But what is forgotten is that something can come out of something and not out of nothing. How these increases will be sustained in the absence of increased wealth is given no thought either by labour leaders, the public or the Government. They are all living on slogans.

We spent heavily during the war. But we were at that time producing more. Now we are spending heavily and embarking on new expenditures which can come out of only new production. But it is going down. The Government of India have a debt of over Rs. 2,000 crores. This will be increased to the extent our sterling dues are repudiated.

With all the new expenditure and heavy debt and fallen production, what will happen?

The position is this:—

(1) Our production has gone down due to shorter working hours, communal tension, absenteeism, wear and tear of machines; yet some of the provincial Governments would not allow the production to go up. Industrial national wealth has gone down by 25 per cent. and the existing wealth is being destroyed by arson and riots.

(2) A substantial portion of our population is unproductive these days for one reason or the other. Demobilized soldiers with money in their pockets, cultivators with high purchasing power have lost all incentive to work more. Industrialists have lost incentive due to higher taxation. The man in the street cannot put up regular work due to the communal situation and curfew and all that they imply.

(3) The future plan of industrialization has been put in cold storage due to the possibility of our sterling resources being frozen.

(4) The food situation is serious and the possibility of imports is very much lessened because of lack of foreign exchange.

(5) Permanent scarcity of food and consumer goods is seriously threatened.

(6) If national wealth has gone down, our expenditure, public and private is increasing by leaps and bounds. How shall we sustain it in the absence of more production?

(7) The Services are getting inefficient and inadequate. There is demand for more telephones, more telegraph lines, extension of the postal service, better and more travelling facilities and more education. A country can afford to spare more money for these services only if it increases its production for essential goods. Not otherwise. Repudiation of debt by Bri-



tain has deprived us of backing of the currency and foreign exchange for future industrialization

(8) Our indebtedness has enormously increased. It will increase further.

### **Crisis is Near**

How long can this situation continue? Not long. The crisis is already at our door. All this if not properly treated must lead to serious inflation. Then it will be a dangerous thing. We shall have to resort ultimately to printing notes. This will mean a further rise in prices. High prices will again push up expenditure.

We are not far from this position. It is not irretrievable as yet. But the Government have neither the knowledge nor the experience to meet the situation nor do they see the gravity of it. They think, perhaps, speeches can cure every disease. Once the situation gets out of control, it will be uncontrollable. What then?

India has labour, resources, talent and ambition—everything to make her a prosperous country. Many things could be done. But the leaders have no time. One day they will realize that economics cannot be neglected with impunity. To do so is to invite sure disaster.

### **Neglect of Economics**

When Churchill fought the war, fighting was going on in the battlefield, but the home front was not neglected. During the war period, Englishmen immensely improved their health. The standard was not allowed to go down substantially. In fact those below par improved. Everything to the minutest detail was being looked after. Had it not been so,

the war would have been lost. The Government was keeping its hands day and night on the economic pulse of the country. Those who were capable of fighting were doing the fighting; others were doing the other jobs.

Here it is quite different. Our Ministers seem to be engrossed only in one subject and nobody is thinking of what is happening in the economic field. The crisis is surely coming. It is just round the corner. It is yet to be seen what the Government are going to do to meet it. The future does not seem to be rosy at all.



## II

### STATE AND PRIVATE ENTERPRISE\*

In order to save your time, I may be allowed not to read this resolution, nor, if I may say so, to deal with the specific points raised here since most of the previous speakers, in speaking on other resolutions, have dealt with the various aspects of the questions mentioned in this resolution. I may, with your permission, take up only the general aspect of the situation which, in my opinion, just now seems to be more important than even the specific points raised.

One must realize, as I am sure it is being realized, that India just now is passing through a very serious crisis. Not India alone, but, if I may say so, the whole of Asia seems to be in ferment. A bitter civil war is raging in China, in Burma and things are very difficult in countries like Indonesia and Malaya. In fact, some of the foreigners paying a temporary visit to India even from Europe have expressed it to me that compared with other parts of the world, India at present seems to be a paradise. And yet it is a fact that the trouble which is being faced by other countries is gradually but definitely travelling towards India. The recent incident in Calcutta is the surest indication of what India should be prepared to face.

There are political aspects of the question, but

\*Speech while moving the resolution on the general economic situation at the Annual Session of the Federation of Indian Chambers of Commerce and Industry on 4th March, 1949.

besides the political aspect there is undoubtedly the economic aspect and it is in this field that business men can claim to be competent to make a contribution so that the discontent and poverty prevailing at any rate in this country may be eliminated. You can rely on our National Government to tackle the problem, as far as the political aspects are concerned. But, with all their self-sacrifice, with all their zeal and habit of hard work, they have not got the necessary experience and talents to create prosperity for the masses in this country. That is a problem which we alone can solve and if we can solve that problem then, if I may say so, 90 per cent of the battle will have been won.

### Want of Co-operation

The question is: how to solve the problem? There are plans, there are remedies, there are schemes. There is no dearth of all that. Almost every day, if I may say so, you read in the Press of one or the other Minister announcing a scheme of 50 crores or 100 crores for the achievement of this or that thing. But, paper plans can never solve the problem. It is the execution that matters, and when it comes to execution, unfortunately, the country and the nation find that there is little or no talent, and without co-operation from those people who have got the requisite talent, these problems could not be solved. Unfortunately, at this stage, we find there is hardly any co-operation between the different sections of society. There is non-co-operation, if that is not a strong word, between Congressmen, between the Ministers and the Legislatures, between labour and capital, between capital and Government, and perhaps you can refer to one hundred or two hundred sections of society which are working in their own way without giving any co-



operation to one another. I fear India's curse has been too much of individualism. There has never been team-work and now that we have got democracy, now that we have our own government, it is high time that we all realized that whatever be our views about certain aspects of the question, it is the duty of all of us to work like a team.

When the Government of India invited the industrialists last August to submit their report to the Government as to the measures that they should adopt to fight the inflation, we said in our report that the worst of what has happened in India is a crisis in confidence. I personally did not realize at that time, which I do at present, that more than a crisis in confidence, there is a crisis in co-operation. There is no co-operation at all and unless and until every section of society co-operates with each other, I can tell you, and through you the whole of the country, that the economic problem is not going to be solved. We are handicapped by this lack of co-operation in that while in this room you have plenty of talents, plenty of experience on economic questions, the experience and talents are not fully utilized.

### **Mistrust of Businessmen**

Unfortunately, businessmen who happened to be the best supporters of the Congress in the past are coming in for the worst kind of criticism. The Princes today are patriots; the Military, the Police, the Services are all favourites. But the one section of society which in spite of its knowledge that when the National Government came into power it would be the business community that would be the worst sufferers, stood by the struggle—I say that they are the most distrusted people today in the Government circles. Fortu-

nately, if I may say so, there is a change discernible recently in political circles that after all businessmen are not so bad as they have been depicted by a certain section of the Press. It is perhaps very slowly but definitely being realized that the achievement of the Indian capitalist has not been altogether insignificant. It was, therefore, very heartening, Sir, to hear of our leader of the nation, the Prime Minister, definitely admitting in a speech at Lucknow the other day that capitalism, in this as in other countries, had rendered great services and made great contributions. (Hear, hear). I think it is not yet fully realized what our achievements are. Businessmen by nature are a quiet people. They do not advertise themselves. They do not shout about their achievements. They do not generally defend themselves when they are abused. But the fact today is that the price of cloth in India is lower than in other parts of the world. It is the more remarkable as it has been achieved against heavy odds. Under the regime of the foreign Government, with all impediments and obstacles, the business community struggled; and today they have more or less made the country self-sufficient in respect of the supply of cloth. If that is the position in respect of cloth, the same, more or less, is the position in respect of steel. I have been told that if we import steel today from other countries we have to pay Rs. 250 per ton higher than the price of the indigenous steel. In respect of cement, in respect of sugar, in respect of paper and in respect of so many other consumer goods the business community has been able to make India a self-sufficient country. You may visit any part of Asia and you will find that if there is any Asiatic country today which is leading in industries it is India and I think we can legitimately take pride in our achievement.



### Chance To Private Enterprise

I think it is a recognized fact which has been admitted by economists all over the world that if we want to solve the problem of production, we have to look to private enterprise. Of course, it is disputed whether as far as the question of distribution is concerned, private enterprise can solve it. Well, I have no doubt in my own mind that capitalists will march along with the times and in due course they will be able not only to solve the problem of production but also the problem of distribution. What is needed is that their co-operation must be sought by the Government. The Government are making the greatest mistake of their life if they think that by making paper plans, by making speeches, by making promises to the masses, they can solve the economic problems of the country. I do not doubt that their intentions are quite good. But, unfortunately, they have not got the experience which we have got. Our co-operation, Sir, has never been sought. That co-operation must be sought. The businessman, with all his faults, must be given a chance, which he has not been given since the advent of our National Government. I have no doubt that if he is given a chance he will rise to the occasion and discharge his duties most loyally, faithfully and patriotically to the country. (Hear, hear). What is happening just now? Because of this lack of co-operation so many things are happening in the Secretariat today. And I do not blame the Services which with all their difficulties, with all their shortcomings, are carrying on the administration most wonderfully. They have been able to maintain law and order; they have been able to keep the machinery running. But, after all, the I.C.S. does not have experience except of law and order, collection of revenue

and writing notes on files. And even there this service is very much depleted today. I am told we used to have something like 1,200 officers and now we are left only with 400. It is not possible for such a depleted force, without experience of economics, to achieve the objects which we have in mind. The machinery cannot deliver the goods. Mistakes are inevitable. It is not their fault, but it is due to their lack of experience.

### Subsidy to Foreign Grower

What is happening? Take the case of food itself. A large number of speeches were made yesterday and I think one of the speakers very rightly pointed out that according to the Food Minister, up to last September there was no shortage of food, but suddenly within a fortnight it became apparent that there was no food in the country. I do not know how to reconcile these two conclusions which are contradictory to each other, but I have no doubt in my own mind that even the Government do not know what exactly is the position. They suddenly decided on control, but without making provision for procurement. They made commitments which they did not know how they were going to fulfil. The result is that there is practically no procurement as far as I know, and they have to meet all these commitments from imported foodstuff. We have to spend Rs. 130 crores of foreign exchange on importing food and another Rs. 32 crores on subsidizing it. It is an irony of fate that we should be giving with our own money a subsidy to the foreign grower, encouraging him and giving protection to him while we are penalizing our own grower.

The same tale has been told about cotton and the previous speaker, Mr. Saraiya, pointed out to you what a mess has been made in respect of that commo-



dity. I am a cotton mill-owner, and there are many others in this room. We can pay any price that we like for cotton to the Pakistani grower, but when it comes to the Indian grower, no, you are not to pay more than Rs. 700 at the most! Look at this logic. Perhaps there may be something which is beyond our limited wisdom to comprehend, but I think any fool can tell you that if you have to pay something, pay it to your own man rather than export money to other countries. (Applause). Yet we are told that this is done in the best interests of the country. Now, Sir, if you do not have sufficient cotton, everybody knows that the mills will have to close down some time in October. I am sure, and I appeal here to the businessmen, that whatever be the Government policy, it must be our solemn duty not to close down the mills for one single day even though we may have to import cotton at any price. (Applause). The cotton is available in the world's market, and at this late hour it has dawned on Government that cotton must be allowed to be imported. I have no doubt that we shall import cotton even at a higher price, sell cloth at a lower price and suffer losses, but there is not one mill-owner, however money-minded, who has any design of closing down his mills. Nobody is going to do that. In civil aviation, company after company has gone into liquidation. But those that are left behind are working in spite of heavy losses and they will continue to work even under that handicap. After all business like any other sport is a game. You can make money; you can lose money. The duty of the businessman is to do business. He is going to do it, and by losing is going to prove that he is not a mere profiteer but that he is a producer whose solemn duty it is to produce. The same thing is happening in respect of cloth. In

respect of distribution there is a complete mess. There has been control of cloth for the last five years. I have said so many times from this platform and other platforms and also in private conversation to the highest officials that I do not understand why they do not seek the co-operation of the trade. They sought the co-operation of the industry, but never for once did they seek the co-operation of the trade. Unless they seek the co-operation of the wholesalers they are not going to solve the problem of distribution. What is happening now? Mills are full of cloth, but the markets have no cloth. The distribution of cloth is handled by the Government through people without any experience of the matter. A person is asked to distribute cloth who does not know even the difference between medium and fine, and he has got no finance. The result is a complete mess. Here again, I wish to tell you that it is not their fault unless it be that they have not sought the co-operation of the right men.

With regard to sugar we have not been allowed to export it freely to Pakistan. The excise duty which is levied on sugar and vanaspati ghee is not refunded with the result that Pakistan finds it easier and cheaper to import sugar from other countries, to import vanaspati from other countries and we have got a large unfavourable balance of trade with Pakistan. When we buy cotton or jute we send our notes to Pakistan. Those notes come back, they are presented to the Reserve Bank and the Reserve Bank has to pay in sterling or in gold. Who suffers in this sort of transaction? It is this country which suffers. I think the trade with Pakistan should be carefully planned in consultation with businessmen and then we shall find that all this mess that things are getting into today will no longer be there.



### Govt. Partner in Profits

Unfortunately some of the politicians—not the men in high positions—have a queer idea about trade and they talk of the elimination of the middleman as if the middleman is of no use. They do not know that the basis for the prosperity of every country, except in countries like Russia where it is completely socialized, is good trade. They do not realize what will be the loss to the Government itself if you do not have trade. Half of the revenue today of the Government of India is derived from Income-tax. When we are asked to work without profit, it is not realized that the Government of India is a one-half partner in every business; in some cases it is a three-fourths participant in the profits. And if there is no income, obviously there cannot be any Income-tax. So half the revenue disappears. It is not that alone. It is true also of Railways, of Posts and Telegraphs, of Telephones, of Civil Aviation—there is not one Department of the Government of India which is not likely to suffer from bad trade. Therefore, it is high time—although we have been a quiet people and we talk very little—it is high time that we tell them that the profit belongs not to the businessmen alone but more than 50 per cent of it belongs to Government, a good portion of it belongs to labour—and a good portion of it goes even to the Press through advertisements. Once prosperity is gone everything else will go.

### Crisis in 1950

If the profit motive in the business community disappears it will have a serious effect on the income of the Government. The other day I told our Finance Minister that he should be prepared for a serious drop in receipts from income-tax in 1950. I am sure he

realizes it. After all, he is a wise man; he has been a Professor and he has been a businessman. But it is no use realizing it in 1950; he should realize it now. A very large part of the Government income is derived out of business and unless you want to have complete socialization it is no use running the business community down: it is no use telling them to work with the service motive and not with the profit motive. After all, all profits must be ultimately canalized for the betterment of the country.

### **Businessmen Demoralized**

Well, Sir, if I have said so much about Government's difficulties, about Government's mistakes, I think that I will be failing in my duty if I did not point out that we too are getting rather demoralized. If Government is lacking in experience, if I may say so, we are lacking in guts. Pandit Nehru in one of his recent speeches said: "I do not like the person who does not take risks." I think he is absolutely correct. A businessman, if he ceases to take risks, ceases to be a businessman as well. After all, Indian businessmen built up their business against heavy odds. Conditions now are not worse than they were twenty-five or thirty years ago. This lack of incentive is probably due to the fact that for the last eight or nine years, we had a period of boom and money came without much effort. But that was not a happy time. Now we have to work hard in order to earn money and if businessmen cannot take risks, they must be prepared to give way to some other social pattern. We submitted a report in August last to Government; what did we find? Ninety per cent of the suggestions that we made to Government have been accepted. What more could you expect



from the Government? They have given such enormous facilities for the establishment of new industries that if we do not take advantage of them, I can tell you as a businessman, a businessman who has passed through good and bad times, that after three or four years you will regret that you did not take advantage of the favourable situation. There is always a 'cycle' in business; there are ups and downs. There is no doubt that we are just now entering a period of depression when there will be very little profit and unemployment on a large scale. But it is during a period of depression that one's ability to establish and run a business is really tested. Any fool can establish business when there is a boom. But it requires a lot of cool calculation to establish an industry when there is depression. I think the future of India is bright; it is bright because we know our business; it is bright because we have got talents, and if we combine in us also the necessary guts, I have no doubt that we shall be able to leave proof for the future generation that we knew how to create prosperity in the face of odds.

The other day, at some place our Prime Minister remarked, and I think correctly, that Indian businessmen have not got the same foresight as foreign businessmen have. It is no use our shouting and wailing all the time; it is no use our appealing every time to the Government, "Give us this protection, give us this assurance and also give us the money to start industries." That will be a foolish thing to do. This is what the Chairman of the Federation of British Industries says: "Whilst we have not yielded our belief that private enterprise is the best basis for a prosperous national economy, we have sought to broaden the area of agreement between Government and industry.

Whilst we have constantly made known our opposition and emphasized the grave dangers arising from vast structural changes in the Government scheme of nationalization, we have made liberal and constructive proposals to improve the working relationship of Government and industry." I think it is in this spirit that we have to work. If we know our duty I have no doubt that we shall be able to establish that co-operation between Government and ourselves which is necessary for the fulfilment of that dream of a prosperous India.

### Learn to Take Risks

I, therefore, appeal to businessmen not to be disheartened, but to learn to take risks as our forefathers did and thus to help towards the creation of a new atmosphere. In this connection, it is but appropriate that I should read out to you an extract from Edmund Burke: "All Government—indeed every human benefit and enjoyment, every virtue and every prudent act—is founded on compromise and barter. We balance inconveniences; we give and take. We remit some rights that we may enjoy others, and we choose to be happy citizens rather than settled disputants." I hope we shall cease to be disputants and make our worthy contribution to the shaping of our country's future.



### III

#### OUR AILMENTS AND THEIR CURE\*

(Having briefly discussed the affairs of the Bank, Mr. Birla observed).—

I now take up questions of general importance to the country.

From the point of view of political independence, we are an infant nation, hardly a year and a half old. And although on the eve of independence and soon thereafter there were widespread disturbances and disorders in several parts of the country, we must give the fullest credit to the Government that they soon restored complete order and fullest sense of security. It is an achievement of no mean order of which both our leaders and the people should feel really proud. The integration of Indian States which has been peacefully accomplished has brought about the political unification so necessary for proper civil administration, military defence, and economic progress. Disruptive forces in Hyderabad (Deccan) which caused so much anxiety have been overpowered. Fighting in Kashmir between the two sister dominions of India and Pakistan is over, which must mean so much relief to the people of both the countries and a large saving on wasteful military expenditure. The growing friendliness

\*Speech delivered by Mr. Birla as Chairman of the United Commercial Bank Limited at the sixth ordinary General Meeting of the Bank held on 22nd April, 1949.

between the two neighbouring countries is evident and must be the cause of immense satisfaction to their respective people. It must lead to increasing collaboration between the two governments for the good of their common people.

### Political Deterioration in Asia

In contrast to the betterment in the internal conditions in our country, there is deterioration in the political conditions of several other Asiatic countries, which must cause us deep anxiety. Civil war in China, strife in Burma, disturbances in Siam, organized killing and looting in the Federation of Malaya, and conflict in Indonesia between national and Imperial interests are very disturbing factors. Defiance of established authority and revolt in these countries seem to have found fertile soil in the discontent and poverty of the masses. There have been a few instances of attempts at organised lawlessness, armed looting and sabotage in our country too, but their size and strength are strictly limited and they have been easily overcome and suppressed by Government. Our culture is against rebellion and revolution. But we must not ignore the signs of the times, nor forget the lessons of history, that prolonged economic dissatisfaction sooner or later leads to social eruptions, which may prove too strong for any government to control.

Our immediate problems are co-operation with our neighbours in restoring law and order, preparedness to suppress quickly and with a firm hand lawlessness and disruptive activities in our own country and at the same time to launch a bold but balanced economic programme so that the common man may soon see a material betterment in his standard of living.



### **Economic Problems**

Now that the Government's attention is no longer fully occupied by urgent demands of major political issues, it should give serious and increasing consideration to the solution of the country's economic problems, so that through growing national economy, better living standards may be achieved and thereby society saved from disruptive influences. Our economic problems are pressing and they demand a most urgent solution.

Since the Liaquat Ali budget of 1947, our economic conditions have been continuously deteriorating. Ill-advised budgets, high taxation unrelated to tax-bearing conditions, added to irresponsible utterances by some, have all led to the creation of a vicious psychological atmosphere in which businessmen feel hesitant to increase their commitments or to undertake new enterprises. More enterprise and greater production are the only means by which the standard of living can be raised, at any rate, in a free enterprise economy. Mere increase in wages without a corresponding increase in the supply of goods will lead to higher prices. To prevent the inflationary spiral from getting out of hand, it is necessary to institute corrective measures.

I am glad that the Government decided to seek the advice of economists, bankers, and industrialists on the best measures to check continuously rising prices. The bankers and businessmen in their suggestions showed their clear grasp of the fundamental factors of our national economy and the causes of its deterioration. It is gratifying that the Government accepted most of their recommendations, as a result of which there has been a check on rising prices and the cost of living index number is steadily falling. This has been, in a

large part, the fruit of a growing spirit of realism in the Central Government. However, some of the Provincial Governments are not, as yet, fully alive to the economic crisis through which the country is passing, otherwise there would have been a similar sense of realism in their policies affecting economic problems.

**Depression in the Capital Market:**—The injury caused to our economy by past mistakes is really serious, perhaps much more serious, than many of us are able to realize. Last year the Government's borrowing programme could not be implemented; nor was there any significant new capital floatation on private account. These facts may look surprising to the politician but are not so to businessmen. When the index number of price of government securities has been allowed to fall from 120.4 in 1946-47 to 117.2 in 1947-48 and again to 114.3 in December 1948, nervousness amongst subscribers to government bonds is easily understandable. The fall in other fixed and variable dividend-yielding investments is even worse. Their respective index numbers which stood at 197.8 and 268.6 in 1946-47 have continuously sagged. In December 1948 they stood at 155.9 and 157.9 respectively showing falls of over 21% and 41% respectively in the short period of two years. To accuse industrialists and monied classes of deliberately withholding co-operation with Government on questions of investments is to ignore the real cause, and to take a short cut to further deterioration. It is not fully realised that the real investors are middle and upper middle-class persons who have burnt their fingers badly. People go in for investment to be benefited and not to lose their savings. No investor is foolish enough to rush his orders for purchases to the stock exchanges at a time when the stock markets are



continuously and heavily falling. The Government and the Central monetary authority between them must take the largest share of responsibility for this landslide in investment conditions.

It may be urged that the deterioration in the stock exchanges is due to the operation of special factors like the large actual sales of government bonds by Hyderabad, Pakistan and Indian Princes, and heavy sales by bear speculators. This is only partially correct in fact. And if the rate of taxation on private incomes had not been so steep and high, [96.875% after an annual income of Rs. 1,50,000 (roughly £11,250 or \$45,000)] there would have been possibly a significant source of new capital which would have absorbed the shock of such sales. The rate of taxation on higher incomes is so high that it has not only removed incentive to production and effort but has also meant in many cases living on capital, which has led to a further depression in investment values and stifled new savings or fresh investments. There has also been a big shift in the capacity to save, from our middle classes, who are the backbone of the investment market, to agriculturists and factory workers who are still unaware and unaccustomed to habits of banking and investment. No steps have yet been taken to draw back their surplus money into the organized money market. Possibly capital is lying fallow. But unless immediate steps are taken to devise adequate means to draw back all surplus money to the service of our national economy, to give greater scope to the businessman to save by taxing him less, and to tap foreign sources of capital, there will continue to be a chronic shortage of capital. The new Finance Minister, Dr. John Matthai, during his last budget speech and discussions thereon, has shown a

true appreciation of the difficulties of the capital market and has given some relief to higher income brackets but his policy has to be still more liberal if it is to be effective.

**Existing Industries:**—Shortage of new capital is not the only handicap. Established industries are facing a crisis. Two important industries, Cotton Textiles and Jute, are facing a crisis in their requirements of raw material. Unless these supplies can be increased, some mills may have to close down, which would reduce production of consumer goods and create unemployment.

Industrial profits have fallen and continue to fall. Jute, sugar, cement, paper, steel, and now even cloth, are registering declines in earnings.

**Imports of Food:** Our balance of payments account is dominated by extraordinarily heavy imports of food-stuffs, which in the last year alone absorbed Rs. 130 crores of our foreign currencies, necessitating borrowing from the International Monetary Fund. It is, however, encouraging news as the Food Minister told us last month that self-sufficiency in food-stuffs will be attained by 1952.

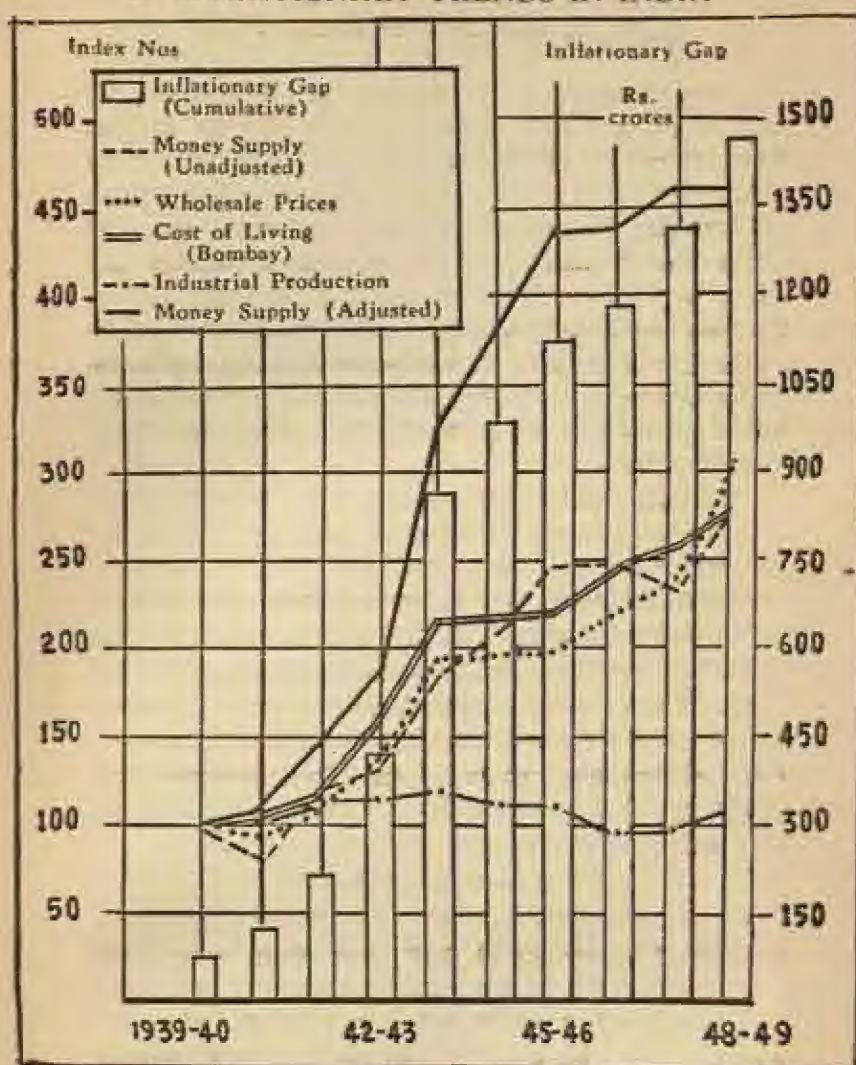
### Revealing Studies

The 'Eastern Economist' of New Delhi, in its annual number of December 31, 1948, has given some very revealing studies on our present economic conditions. It is because they are so telling and should cause concern to every well-wisher of our country, that I propose to refer to some of them. I am grateful for its permission to use its conclusions and charts for my speech.

**Inflationary Gap:**—The first set of graphs refers to inflationary trends in India. It gives curves of (i) money supply, both unadjusted and adjusted according



# 1. INFLATIONARY TRENDS IN INDIA



Inflationary gap represents expansion in currency against accrual of foreign exchanges less money withdrawn from circulation in the shape of surplus of revenue and capital receipts of Central and Provincial Governments over expenditure.

to the velocity of circulation, (ii) wholesale prices, (iii) cost of living index, (iv) industrial production and (v) cumulative inflationary gap in our monetary system. Although there has been a fall in the volume of adjusted supply of money, there is no corresponding fall in the price of goods, which on the contrary has been rising higher. Absence of direct correlation between the two shows that the rise in prices is primarily the result of scarcity and not of increased money supply. This is further confirmed by the falling curve of industrial production. Obviously, prices can only fall significantly if there is an increase in the supply of goods or, in other words, a larger production to exchange against the existing volume of money.

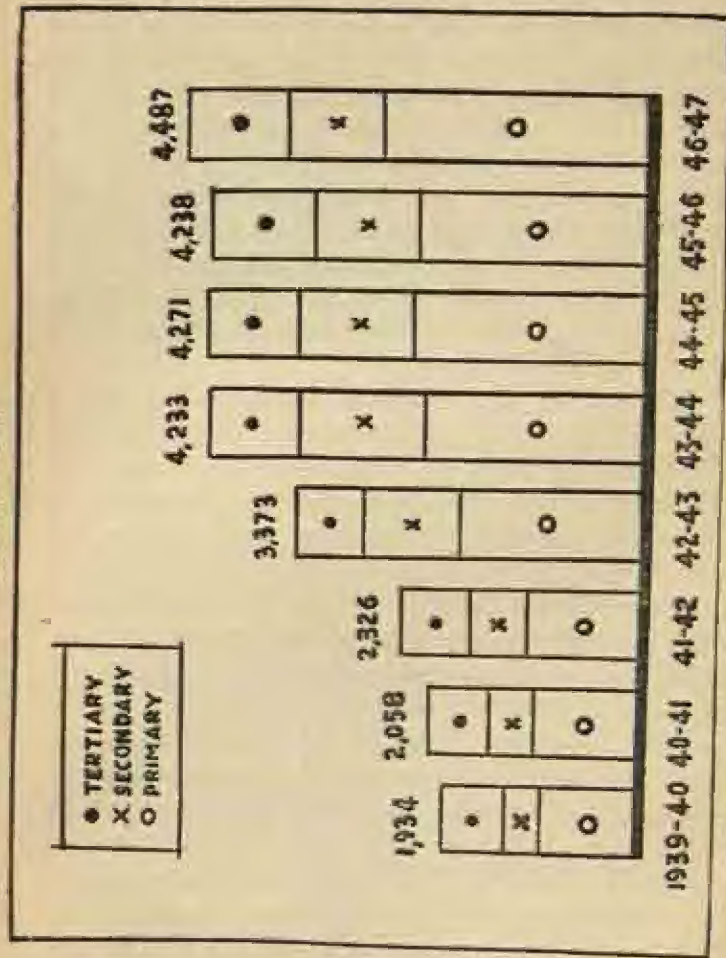
**Changes in the National Income:**—The second series of diagrams illustrates changes in our national income in the Provinces. They deal with components of national income according to the three classes of its population, agricultural, industrial and tertiary. A study of these charts shows a marked shift in the size of their respective incomes. From the point of view of earning and capacity to save, the primary producer has become more important, while the income of the secondary and tertiary groups, who hitherto constituted the investing classes of the country, has come down. The primary producer is not accustomed to banking and investment, and until he is educated to realize their advantages, the only method by which money in his pocket can be brought back to the service of our national economy, is to induce him to spend more, which again requires more goods—again a plea for increased production.

**Nation Lives on Capital:**—The third chart deals with the saving and expenditure of the Nation. The calcu-



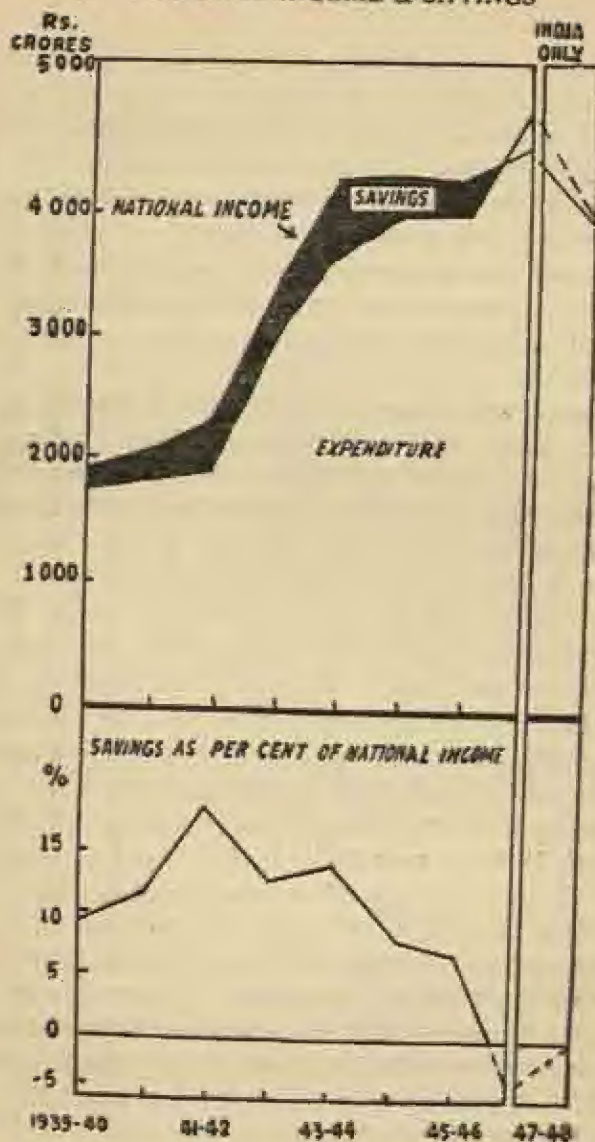
## 2. MOVEMENT OF NATIONAL INCOME

Rupees crores



The above diagram indicates shifts in income in the principal sectors of economy, viz., (a) primary (agriculture), (b) secondary (industry) and (c) tertiary (others).

### 3. NATIONAL INCOME & SAVINGS



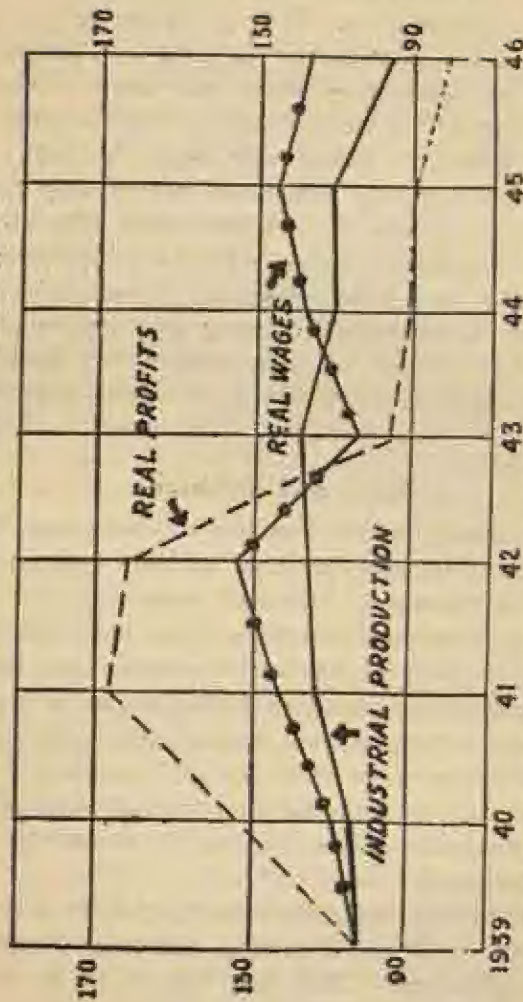
For some time past, not only there is no savings but the nation is living partly on past capital.



lations are rough, but nevertheless they clearly show the serious trend of disappearance of savings from 1946-47 onwards. We would now appear to have started living on capital. There is thus no scope for new investments, and this must retard new business, new production and reduce government revenue. This movement can be counteracted through economy in all spheres of expenditure, until new production can be created through new investment both in industry and agriculture.

**Profits and Wages:**—The last set of graphs relates to the changes in 'Real' Wages and 'Real' Profits. For convenience, profits and wages have been reduced by the same index, a course to which there may be theoretical objections. But since this index is lower than that which is appropriate to profits alone, the fall in real profits shown is greater than might here appear. There can be no doubt that real profits have now declined more than real wages. No one desires profits to be of the same order as they were during the war. But there is urgent need for more profits, to provide more savings and to provide increased production. There has been, in season and out of season, condemnation of profits as though it were an evil in itself. But how can one find fault with the profit motive, seeing that profits form the very core of our national finance? Income-tax which forms 50% of our national revenue depends upon the size of profits. If there are no profits, this revenue would disappear and how would the Government meet its expenses then? Further, it is profit that provides new investment and new industrial employment. If profits are eliminated there would be disorganization in Government's finances and unemployment. It is not that profit-making is bad, but

#### 4. INDUSTRIAL PRODUCTION, REAL WAGES AND REAL PROFITS IN LARGE-SCALE INDUSTRIES



Index of real profits is determined by dividing index of profits by index of cost or living. Index of real wages is arrived at by dividing index of money wage bill by the index of cost of living.



profits should be harnessed for the good of the country and the common man. It is a matter of putting a tool with much potentiality for good to a proper use.

**Need for Realism:**—Unless we show increasing realism, I am afraid the depression which is coming all over the world, including our country, may create many insurmountable difficulties which may disturb the very foundations of our social order. The warning from our Eastern neighbours is clear and unmistakable. Urgent and immediate steps must therefore be taken for improving standards of living, removing want, the parent of all unrest. I may outline very briefly the lines on which action is now, in my view, urgently required.

### India and Pakistan

The dangers which threaten our economy in this country are equally present in our neighbouring country of Pakistan. Prices of foodstuffs and other consumer goods, in Eastern Pakistan particularly, are beyond the reach of the common man. The Refugee and Rehabilitation problems there, too, are as insistent and urgent as in our own country, requiring not only large expenditure but foresight and clear thinking. In the final analysis their solution too will depend upon greater production, the only source of more real money and real wealth.

More capital leading to more production is thus the only panacea for all economic ailments whether in India or Pakistan. How are we going to achieve this?

The first and foremost need is that India and Pakistan must fully realize the common danger of disruptive forces that so seriously confront them. They

must be prepared for increased collaboration between themselves on economic issues. Judging by the recent conferences that have taken place between the two neighbours, one gets the impression that they do realize the urgency of economic problems and are prepared to help each other. Their economy has been always complementary, and every effort must be made to see that this complementary character is not disturbed. To take any other line would create difficulties for both and hinder the economic reconstruction of both. No one denies the need for industrialization in Pakistan or for increased agricultural production in India. There is ample scope for both industry and agriculture to satisfy the growing needs of the masses. Viewed from this perspective, we can see the wisdom of economic union advocated by wise men in both the Dominions. Early steps must be taken to bring this to fruition. Broadly speaking, such an arrangement would imply free movement of men, material and money between both dominions. It should be the basis for such an arrangement that no part suffers in its economic growth or public revenue. A beginning should be made by collecting certain types of revenue on a common basis to be divided between the two in an agreed and equitable manner. That will avoid huge wasteful expenditure on border vigilance, which extending over thousands of miles, can never provide effectively against smuggling of goods. I am sure both India and Pakistan must be losing large amounts in customs and other revenues because of the impossibility of completely sealing their long frontiers against illicit movement of goods. Such unions exist between independent political units, and do not interfere with the political sovereignty of the component parts.



### **Encouraging Banking and Investment Habits**

The second part of our programme should be to industrialize as quickly as possible. The present shortage of capital can be largely overcome by educating agriculturists and factory workers in modern banking and investment habits. We can carry these opportunities to their very doors through mobile units combining banking, insurance, investment and sales organizations. We can also give them simpler forms of savings and insurance instruments. The village mahajan, who combined all these functions in one agency has been eliminated and his place must be taken by some new agency meeting the same needs in the village economy. The Banking interests must give a lead.

Our taxation policy should be revised. The object of our taxation system should be not to wipe off earnings but to stimulate producers to greater efforts, so that from the increased reservoir of wealth a greater share may accrue to the State. Whatever may be the concept of civic obligations in the abstract or philosophical sense, in our mundane day-to-day life, almost every one needs the inducement of a higher reward for better work. Business has to run risks of loss and the State cannot expect men to bear the brunt of losses without the compensating satisfaction of making profits, which the present high taxation policy effectively denies.

### **Foreign Capital**

We can also supplement internal sources of capital with foreign capital which can easily be attracted on reasonable terms. English capital developed the American economy. American capital developed the

South American economy. Both American and British capital would welcome similar opportunities on this side should we be willing to provide them in our mutual interest.

### **India's Foreign Policy**

Increased friendliness with the United Kingdom and the United States of America should be the keynote of our foreign policy. These countries can help us with capital goods and the know-how so necessary for industrialization.

In order that our economy may achieve its maximum productive capacity in the shortest possible time, it is desirable that Corporations with large authority and large powers are formed for different branches of industry and agriculture. These Corporations must be made responsible for achieving their respective production targets. The State's duty should be to watch that the production schedules are fulfilled according to plan, and so long as such progress is maintained, there should be no interference by Government in the day-to-day working.

### **Labour and Capital**

Relations between labour and capital have been improving and this improvement should be maintained. With increased capacity of production, there is bound to be an increase in Labour's wages and remuneration, which would then be reflected in higher standards of living. Labour must be provided with labour-saving devices. It must not object to the introduction of better technical aids to production. Unless the worker's contribution in the production scheme increases, how can he expect better dividends in distribution?



### Festivals and Absenteeism

India has too many holidays. In the point of legalized absence from work, I think we lead the world. This must be radically changed. We cannot simultaneously refuse to work more and also expect better living. Government should examine the question of holidays and leave, and bring it into conformity with the practice of advanced industrial countries.

### The Task Ahead

India had been wanting freedom for many years. Now that we have got it let us take the fullest advantage and create a really prosperous land where men can live happily and well. We must set aside petty squabbles and concentrate on the main issues of economic well-being. Blessed as we are with great natural advantages, there is no reason why ours should not be a country with peace and plenty for all. But we will all need to talk less and work more. Let us put our shoulders to the wheel and, through determined effort, create wealth sufficient to satisfy all.

There has been in the past a tendency to concentrate on differences between the Government and the commercial community, and there are still, possibly, points of difference. But, in substance, the measures which I have proposed are in the interests of the country as a whole, and there is no reason why, on these or similar lines, a policy should not be put into action which should receive the fullest support from all sections in the country. The business community has pledged its support to the Government, and possibly more than ever before there now exists a basis for full co-operation. We would be justified in looking to the future with greater optimism, arising from the

many signs that all sections of the country are increasingly anxious to pull together for the enduring good of India as a whole.



#### IV

### ECONOMIC CONDITIONS IN INDIA\*

Our independence is not even two years old and our achievements during this period cannot be called negligible. The advent of independence unfortunately synchronized with partition, causing great bloodshed. This catastrophe which could have shaken the very foundations of any other Government was withstood by India like a rock. The credit for this goes to the leaders of the Government who never lost their balance during the worst days of communal frenzy. They persisted in making India a secular State, which at present it is, with nearly 45 million Muslims still residing in the country. Our decision to remain in the Commonwealth was a master-stroke of statesmanship of our great Prime Minister. It also reveals the magnanimous character of the country which, with all the old bitterness, was discovered to be capable of forgetting the past and thinking of the future. Like the legendary Hansa that is supposed to be living in the Mansarovar Lake with power to separate milk from water, we rejected the evil, accepting only what was good.

The refugee problem is being tackled with great zeal and determination and will doubtless be solved in course of time. The country is on the whole perfectly calm and peaceful and all disruptive forces have been

\*A paper read before a joint meeting of the East India Association and the Overseas League, London on August 3, 1949.

firmly dealt with. Communism has gone underground and communalism has disappeared fast. But the greatest of all achievements is the integration of nearly 600 Indian States, large and small, many of which had no Government in the slightest degree associated with the inhabitants, nor an administration reaching even approximately to modern standards. For this integration the credit goes to Sardar Patel who, by his inspiring methods, succeeded in persuading the Princes to part voluntarily with the arbitrary power so long held. The achievements thus are great.

### An Economic Crisis

But with all these achievements, we have not yet been able to solve our economic problem. India is really passing at present through a serious economic crisis, which if not solved quickly may undo all the good that has been done so far and may shake the very foundation of the independence of the country. We have withstood many catastrophes during the last two years and averted them. But the economic difficulty is unlike other problems. It may, if not solved, shatter all other structures built up during the last two years and do irreparable damage to the whole foundation.

I do not take a pessimistic view. I feel that we have reached the worst and perhaps we are going to turn the corner very soon. But this turning the corner should not be left to mere hope or accident. We must work for it so that things may improve and improve quickly.

Production at present, though slightly better than in 1947, is much lower than the peak reached in 1942-43. The index of production which stood in that year at 128 is now only 112. Prices are still on the upward trend, though the rise now is very slow. We tried



controls from 1943 to 1948 and then a partial decontrol in cloth and in food for about four months followed by a renewed policy of control. But none of these zigzag decisions have succeeded either in arresting the rise in prices or in giving any impetus to production.

### Prices and Production

During the war period the rise in prices was attributed to the large expansion of currency and credit. I never agreed with this view and so came in for quite a lot of criticism. I always maintained that restricted production was the root cause of rising prices, and that neither controls nor a policy of deflation would ever solve the problem, which could be met only by a substantially rising production.

This is now confirmed by the fact that while between June 1948 and June 1949 there has been a fall of Rs. 52 crores in currency circulation and of Rs. 156 crores in Bank deposits, thus reducing the total supply of money by Rs. 208 crores, these falls had no dampening effect on prices, though they had a very tightening effect on the money market. It is very well known that during the last busy season the money market was tighter than at any previous time. The rate of interest in the private market went as high as 10 per cent, although the Bank rate was maintained at an artificially low level which is no longer the true reflex of the money market. With all this reduced supply of money and the high rate of interest during the period mentioned above, the cost of living has continued to rise. I still stick to my view that the remedy thus has to be sought not in currency deflation, but in increased production.

People talked in the past, and a few still talk, of inflation, but if inflation means too much money chas-

ing too small a volume of commodities, then that excess of money is not to be seen in India. In an inflationary period we generally see a rising value of equities in the Stock Exchanges. In India, however, during the last two years we have seen a serious fall in the Stock Exchange and the prices of equities have come down to nearly one-third of what they were in 1946. The truth is that India today is passing through a severe economic depression of a kind rarely seen in the past.

### Communism in Asia

The political consequences of the present bad economic condition should not be under-estimated. China is in turmoil. Indonesia and Malaya are in trouble. Burma on our border is in chaos. There is thus no peace beyond the eastern boundaries of India, which alone is peaceful.

We have been able to keep Communism under check so far. Communists in India have gone underground and cause occasional troubles especially in Calcutta and part of South India. The people as a whole have no sympathy with either the Communists or Communism. But the question is: how long, without improving the economic condition, can India remain free from Communism?

In every country the middle classes are the backbone of society. They are in the worst plight in India at present. High prices and high taxation have broken their backs. While the middle classes are the most vocal classes, labour, curiously enough, has received far greater attention than they have. The middle classes have been neglected even by themselves. Thousands of students are turned out every year from the Universities. They need jobs and a



comfortable standard of life. How shall we provide them with these? To keep a contented India, we must have a contented middle class.

The problem before India is to secure lower prices, a rising standard of living and new employments. All the three are to be found only in increased production.

### Abundant Resources

One may well ask: Are there sufficient resources in India which if developed fully, can supply the needed nutrition and goods per capita? My reply is that the resources are abundant. India in area is roughly forty per cent of the United States of America: in population she is a little more than double. The resources per capita, though undeveloped, are thus anything of the order of one-fifth of those in America. The per capita income of an American at present is perhaps about 1,200 dollars per annum. Ours converted into dollars would come to about 60. But the cost of living in India as compared with 1939 has in fact increased by double the corresponding increase in America and if we take this into account, then the real income of an Indian at present is only 1/40th of that of an American, while his resources are as high as one-fifth. The gap between what is possible and what actually exists is very large, offering great scope for progress.

Just before August 15, 1947, the day independence came, I was asked by some Ministers to estimate what was possible to achieve in the economic field within the first five years of independence. For my own clarification, I figured out—and subsequently published it in the form of a brochure—that it was possible within five years to raise our standard by

nearly 20 per cent, and thereafter the pace could be still quicker, if we could invest nearly Rs. 1,200 crores in the first five years very judiciously and more thereafter.

Unfortunately, however, in the economic field we have not moved forward. We have been overwhelmed in these two years with a variety of problems requiring priority attention. Most of these are now either solved or are being solved. To neglect our economics now will be criminal negligence.

### **The Right Road**

We are all worried about the economic condition which perhaps should now be the first item on the agenda. But this alone cannot take us very far unless we adopt the right path and then move along it. There may be no royal road for progress, but whatever be the road, it will invariably be found with a sign-board on it 'Hard work—Thrift—Saving and Investment'. If we choose the road with the signboard 'Leisure—Extravagance and Dis-saving', we must come to grief.

There are two main problems before us; one is food and the other is increasing the supply of consumer goods. For food, we have undertaken a large number of projects on the lines of the Tennessee Valley Scheme and they are being pushed forward with the utmost haste. I estimate that many of them will be completed within the next five years. Besides this, we have undertaken a programme of large-scale reclamation of land. We are also adopting small irrigation programmes like tube wells and bunds. Fertilizers and good seeds are not being ignored. The first fertilizer factory will be ready to produce 350,000 tons during this year. I feel that within the next five



years, India may become self-sufficient in respect of food.

### **The Growth of Population**

But the critic rightly points his finger at the continuing increase in our population. The truth, however, is that nobody knows what our real population is. It is common knowledge that the census of 1941 was not taken in a suitable atmosphere. I should not, therefore, be surprised if we found at the next census that our population is not as high as it is thought to be. Yet nobody can deny definitely that we are multiplying a little too fast. Whatever be the position, we will have to take suitable steps not only to check this rapid growth, but also to increase the average span of life.

One can very well imagine the effect on the productivity of a people with a short span of life, which in our case is only 26 years average, as against 66 of an American. If the working period is considered to commence at the age of 16, an Indian gets only ten years of working life against 50 in America. Thus our effective population for production purposes is reduced, as compared with American, to only 20 per cent of its total. For every hundred mouths we have to feed, the hands that work are not two hundred but only forty. This smaller output due to bad nutrition and a short span of life is further accentuated by a large number of holidays. Thus we are in a vicious circle. Less nutrition leads to less outturn of work and shorter life, which in turn means smaller production. This circle will have to be broken at some stage.

### **Private Enterprise**

I fear, however, I have strayed a little from the

subject which primarily is how to find larger supplies of food and consumer goods. I have told you what we are doing for more food, but in the direction of other consumer goods we have so far done little. True, Government is planning to instal two new steel plants of half a million tons each, and plants to produce electrical goods, synthetic petrol and machine tools, etc., but it may take years before these projects materialize. Besides, except steel none of these plants will give us essential consumer goods such as to give real relief to the needy. More food, more cloth, more houses, more medicines—these are the first needs. In the industrial sphere, therefore, I should depend more on achievements by private enterprise. I see no hope in any other direction. It is universally admitted how private enterprise during the past fifty years has solved the problem of production all over the world.

### **The Need for Capital**

The first thing that we need for quick industrialization is capital from India and abroad. As I have said before, if we can invest during the next five years something like Rs. 1,200 crores or a sum of Rs. 300 crores a year, we can raise our standard by about 20 per cent. A good deal of it, in so far as it concerns railways, irrigation and such other projects, will have to be found by Government, though ultimately all investments must come out of the pockets of the private investor. In any case, a good deal of money will have to go also to private enterprise.

Our national income at present is something of the order of Rs. 6,500 crores. Whether 5 per cent of the total wealth, viz., Rs. 300 crores per year, can be invested is a question. During the war period in three years from 1943 to 1946 India made a total investment



of more than Rs. 1,500 crores, or Rs. 500 crores a year. To expect, therefore, an investment of Rs. 300 crores per year is not a big ambition. Yet in present conditions in India, it is almost an impossibility. Investment has to come out of savings, unless it is borrowed abroad, and savings can come only out of earnings. Earnings are meagre and with high taxation and high prices at present leave little savings for investment.

It is an irony of fate that up to 1946 when we had plenty of capital, industrial equipment was not available. Now when equipment is available, there is no risk capital to be found. India has not become poorer in real wealth since 1946, but the risk capital is gone.

### **The Finding of Investors**

One of the causes is that incomes have shifted from the investing to the agricultural and working classes, who are not accustomed to invest, but only to spend. This change in the pattern of income is one of the main factors that has dried up risk capital. But there are a few other factors, too, which have to be examined.

The greatest of them is the complete economic destruction of the middle classes, whose greatest stronghold was the Punjab, where people made money out of land and business and invested in industry. With the partition of India, these people had to migrate from Pakistan, leaving their all behind them—and became complete paupers. The Punjab, as one of the greatest strongholds of investors is completely gone. The rest of the upper middle classes living in India are left with little savings for investment, thanks to the very high taxation.

It is not fully realized in India, or perhaps here

either, that the ultimate investor does not come from the very rich classes, but from the middle class, whose investment though percolating in small dribblets in the end creates the vast reservoir of capital formation from which the Government as well as industry draw. Examination of the registers of shareholders of joint stock companies in India will show that more than 80 per cent of the shares are held by these middle classes. The rest are held by the insurance companies and the banks, and only a small percentage by the so-called rich. The managing agents in India who are supposed to be the investors do not lend but borrow. The destruction of the middle classes due to the Punjab upheaval, high taxation and a serious fall in their investments, which have depreciated to one-third of their peak value, have been the greatest shocks to the investment market.

#### A Means to An End

The Princely order was another investor which now is out of the market. Added to this, indiscreet talks by some Ministers and a few rank and file politicians further disturbed the mind of the investor. Too much regimentation and interference from Government in various stages of production and distribution have also contributed to the tightness of money. Planned economy and controls should be only a means to the end, which is larger production. Controls should not mean laying down a few hundred 'don'ts', hindering all initiative and incentives as has been the case in India, but they should mean positive encouragement to production and an invitation for co-operation to that end of all the sections of society. This principle of a planned economy has not yet been fully realized by the Administration.



The bad system of distribution in controlled industries combined with high prices of jute and cotton has made new inroads into the finances of industry which is now called upon to find much larger capital. Transport difficulties too have caused accumulation of larger stocks in a few industries, blocking more money. Indiscriminate heavy imports from abroad leading to an unfavourable balance of trade with overseas markets and with Pakistan have also aggravated the position of capital. The recent introduction of the Industrial Control Bill has added new doubts to those existing in the minds of investors. This completes the picture of how capital has become shy or has dried up.

### Labour Conditions

As far as labour is concerned, the situation is definitely better. Wages are higher and the Government has taken many measures to promote the safety, health and welfare of the workers. By these efforts, and by the provision of adjudication machinery, the Government and the Country have been rewarded in the reduction in the number of strikes.

I personally feel that from now onwards we should see a turning of the corner. Labour conditions should show further improvement and the investment position too should improve. As already stated, the total national income of India per annum is something like Rs. 6,500 crores and it is not too much to expect an investment of Rs. 150 crores during 1950 which may increase easily to Rs. 300 crores in 1951 and more in 1952. But it should not all be left for nature to work out. We all have a duty to perform and a contribution to make to create conditions to a better end.

### State Policy and Its Execution

Government, of course, will have to play the primary part. But it would be fatal for private enterprise to feel that it has no duty to perform or no contribution to make. Even if the Government make mistakes, we have to look upon them with helpful and friendly eyes. The intentions of Government are of the very best. Their industrial policy on the whole is not unsound. It is neither to the extreme right nor to the extreme left. It steers a middle course which perhaps is best under the circumstances. It is the execution of this policy that the Administration has muddled. This perhaps now is gradually realized and will be set right. With lack of knowledge of economics and in the first flush of the assumption of power, such mistakes were inevitable and hence need not be too much exaggerated.

It may be known here that recently Government have granted large concessions to new industries. A new industry will virtually be free from income-tax for the first five years, provided its profits do not exceed 6 per cent of the capital. This shows that the aims and intentions of the Government are sound, and the mistakes and muddles are mostly confined to the administrative field. While it is our duty to point them out, it is also our duty not to sit tight and offer mere criticism without making constructive contributions.

The future of India is definitely bright. We have large resources, talents and organizing capacity. We have the labour and the industry with a quite encouraging background. We have a Government very strong and popular. The two leaders, Pandit Nehru and Sardar Patel, hold a unique position in the country. Pandit Nehru has vision, charm and knowledge of the past and the present. His reputation in the inter-



national world stands very high. Sardar Patel has a deep knowledge of human psychology, has the capacity to organize and act, and has a heart which infects people with love and activity. There exists a close understanding and co-ordination between these two giants. This is by every standard a unique position.

I have said before that the fight against poverty in India is a fight against Communism in the whole of Asia. The job is essentially for India to do and she will do it. But it belongs no less to the world at large. It belongs to Britain no less than to India.

### **British Co-operation**

Britain has a problem similar to ours. While she has smaller resources than ours and greater technical skill, we have larger resources but less technical skill. Is it a dream to believe that the fate of India and Britain may be linked together for years to come and that both countries will be called upon to solve their respective problems in the closest friendship and co-operation? If there is to be this link it behoves us both to fight out the present crisis shoulder to shoulder with patience and zeal.

Before the war we were debtors to Britain. Now we are her creditors. We have built high hopes on our sterling balances here. But more than this, we expect sympathy and friendliness from you. If we are fighting Communism, it is a cause in which you too are interested. We are thus fighting a common battle.

You and we have been associated for nearly 150 years. The association was that of ruler and ruled. That is past and with it is gone all the past bitterness. A new relation and with it a great friendship has grown. This new feature can be realized fully only by those who have visited my country. Never was there greater

cordiality towards the Englishman than exists today. By our own will we have decided to remain in the Commonwealth. We are friends: we desire to continue to be friends. I hope this feeling will be reciprocated by all sections of British society. India needs the sympathy and co-operation of your country. It needs equipment and to know how to fight poverty. I hope this co-operation will be forthcoming in abundance. Jai Hind!





## INDEX

- Absorption or expansion of currency, 205, 213, 237, 334-5.  
Afforestation, 104, 113, 125.  
Agriculture, 125.  
Associated Chambers of Commerce, 133-5.  
Balance of payments, 221-2, 306-7.  
Balance of trade, 205, 209, 238, 285, 491.  
Bank of England, 51, 120, 288, 347.  
Bank rate (s), 213, 269, 333-4, 347, 552.  
Banking and investment habits, 546.  
Bengal National Chamber of Commerce, 223-8.  
Bombay Plan, 35, 76, 109.  
    —agriculture not ignored, 40.  
    —distribution of wealth, 35, 52-54.  
    —doubling of income, 37.  
    —employment, 49-50.  
    —problem of finance, 43-4.  
    —targets, 37.  
Borrowings by Government, 101.  
British Insurance Companies, 461.  
British Investments (in India), 123 f., 492.  
Budgetary deficits, 210, 213—losses concealed, 318 f.  
CAPITAL, 331, 455.  
Capital  
    —country living on, 539-41.  
    —expatriation, 306-7.  
    —risk capital gone, 558.  
    —shortage or scarcity, 344, 535.  
Capitalism, its record in India, 398-402.  
City of London financiers, 383-5.  
Civil Disobedience, 367-8.  
Company Law Amendment Act, 393.  
Consumption  
    —equals production and imports minus exports, 440.  
    —fall in, 353-4.  
    —goods industry, 45-6.  
    —of cereals, 8, 15, 354.  
    —of some other articles, 6, 7, 8, 440.



Controls or regimentation, 59-61, 78-80, 87-9, 114-5.

Cotton Excise Duty, 144.

Cotton Industry

- consumption of cloth, 8, 15, 16, 179, 353, 493.
- expansion at cost of foreign imports, 401.
- factory and handloom production, 179-80, 401.
- investment in, 402.

Council of State, 241.

Creditor and credits, 455, 486, 491-2.

Currency

- Babington Smith Committee, 207, 228.
- Chamberlain Commission, 204-5.
- contraction 202-3, 224, 238-40, 269-70, 296, 334-5, 480.
- Fowler Committee, 203-4.
- Hilton Young Commission, 211-2, 215, 237, 241, 303-4, 312-3.
- “managed”, 278.

Deflation, 213, 343-4.

Depreciation of Franc, 335-6.

Depression, 1, 9, 129, 214, 243, 250, 253, 270, 340, 343-4, 491.

Dollar Pool, 420.

Dollar-sterling exchange, 463.

East India Association, 550.

EASTERN ECONOMIST, 41, 58, 537.

Eastern Group Conference, 446.

ECONOMIST, 276, 332, 497.

Exchange

- appreciation was indirect taxation, 236.
- fluctuating as against fixed, 260-2, 280-1.
- raised from 13d. to 16d., 203.
- shot up to 2s. 10d. sterling, 206.
- stabilisation at 18d., 212.

Exchange Banks, 461.

Excess Profits Tax, 93, 452-3.

Expenditure, rise in, 516.

Export surplus (es), 219, 459, 513.

Federation of British Industries, 530.

Federation of Indian Chambers, 1, 35, 76, 127, 268, 349, 353, 373,  
443, 454, 520.

FINANCIAL NEWS, 230.

Five-year Plan outlined, 99-125.

- agricultural targets, 112-3.

Five-year Plan outlined, 99-125.

- co-operation between labour and capital, 102-3.

- expenditure and foreign exchange, 104-6.
- investment required, 1,220 crores, 106-9.
- return on capital invested, 109-10.

Fiscal Commission, 141.

#### Food

- "controlled" and actual prices, 484.
- "Grow More" campaign, 60, 493.
- heavy imports, 537.
- shortage in 1943, 493.
- subsidy to foreign grower, 525-6.
- supply affected by war, 483.

Foreign capital, 546-7.

Foreign liabilities, 132-38, 306-7, 454-55.

Foreign policy, 547.

Foreign vs. internal trade, 234, 277-8.

#### Gold

- Bullion standard, 213, 223.
- currency, 201, 205, 222-5.
- Exchange Standard, 204, 206-7.
- exports, 215, 445.
- reserves, their location and composition, 222, 225.
- resources frittered, 269, 355, 447.
- Standard, 203, 222-4—in Great Britain, 211, 213, 269.
- Standard Reserve, 20, 204, 289, 345, 357.

HINDUSTAN TIMES, 434, 511

Home Charges, 133-5, 313, 439, 457, 459.

Housing, hospitals, etc., 125.

Hydari Mission, 63.

Imperial Bank, 347.

Imperial Chemical Industries, 434.

Imperial Council of Agricultural Research, 9, 140.

Imperial Preference, 148-9, 155, 174, 190-2, 352-3, 370-1.

Income Committee, 330.

Income and income-tax, 528—receipts from income-tax, 315.

India and Pakistan, 544-5.

India Office, 272, 301-2.

Indian Chamber of Commerce, 227, 232, 362.

Indian firms in London, 128.

Indian Institute of International Affairs, 197.

Indian Legislative Assembly, 146, 154, 164, 171, 174, 222, 227, 288,  
311, 318, 326, 336, 349, 359

Indian National Congress, 142, 380-1, 387, 405, 457.

Indian worker—what he lacks, 427-9.



- Indo-British co-operation, 562-3.  
 Indo-Japanese Pact, 18.  
 Industrial Control Bill, 560.  
 Industrial Delegation, 414-5.  
   —absenteeism, 545.  
 Industrialization  
   —in Australia and Canada, 446  
   —means less pressure on soil, 402.  
   —possible only in right climate, 403.  
   —will create wealth and employment, 404.  
 Industry and mining, 125.  
 Inflation  
   —*or* increased circulation? 471.  
   —*or* scarcity of goods? 468 f, 552-3.  
   —spiral *or* gap, inflationary, 534, 537-9.  
 Insurance, Indian Companies' share, 402.  
 Integration of States, 532.  
 Interest-bearing obligations of Government, 269.  
 International Monetary Fund, 537.  
 "Invisible" export, 216, 219, 481.  
 Joint Stock Companies' capital, 339.  
 Jute industry  
   —curtailment of production, 12.  
   —general strike, 128-9, 194.  
   —strikes again and why? 394-5.  
   —shortage of raw material, 537.  
 Kerosene, duty on, 361-2.  
 Labour and capital, 547.  
 Labour Government, 425.  
 Labour Inquiry Committees' Reports, 400-2.  
 Lease and lend, 463.  
 Liaquat Ali Budget, 534.  
 Lloyd's Bank, 339, 344-5.  
 London Chamber of Commerce, 128.  
 MANCHESTER GUARDIAN, 268, 296.  
 Military expenditure, 139, 279-80, extra-territorial, 489-90.  
 Monetary maladjustment, 253-4.  
 Montagu-Chelmsford Reforms, 216.  
 Multi-purpose schemes, 113.  
 National Income, 44-5, 104-5, 450-1, 538-41, 557, 560.  
 Note circulation (1914), 206, (1939 and 1945), 220, 538, 552.  
 Organisation of Industrial Employers, 393, 465.  
 Paper control, 87.

Paper Currency and Coinage Act, 377

Paper Currency Reserve, 20, 263, 285, 345, 351, 357, 368.

Partition and Investment, 558.

Payment of Wages Act, 393.

Planning, 13, 14.

—by Government a failure, 89-91.

—department, 86, 93.

—its preliminaries, 58-75.

—pre-war economic, 14 f.

—post-war, 27.

Political independence, 532.

Population

—increase in, 440.

—millions die and many more millions suffer, 220.

Postal Certificates 327, 350, 356.

Price(s)

—ascend, descent and ascent again, 407-8.

—fluctuations distasteful to society, 496.

—rise and its real cause, 482-4.

—stability of, 260 f, 279.

Production

—agricultural, 4, 5, 28, 112-3, 118, 149.

—and private enterprise, 524.

—English and American methods, 421-2, 432-3.

—enormous possibilities of increasing, 220.

—fall in, 515, 517.

—industrial, 2.

—mineral, 29.

—obstruction by "red tape", 68.

—problem today, 512.

—solution of poverty, 139-40.

Profits and profit motive, 452, 528-9, 542-3.

Prosperity

—its criterion, 322.

—post-war decline, 460.

—what it means, 438-9.

Protection

—discriminating, 141.

—in comprehensive sense required, 143.

—reservation of coastal traffic, 164 f.

—Swadeshi, a kind of, 142.

—to Cotton Textile industry, 174 f.

—to Match industry, 171 f.



## Protection

- to steel industry, 148 f.
- to wagon industry, 154 f.
- Provincial Contributions, 318-7, 320.
- Reservations and safeguards, 373-4, 378, 382-8, 455.
- Railway expenditure 321—statutory control over budget, 375-8.
- Refugee and Rehabilitation problems, 544.
- Replacement value and depreciation, 64-5.
- Reserve Bank, 101, 120, 212, 216, 219, 220, 222, 225-6, 303-4, 375, 377, 461, 473-4, 491, 512, 527.
- Retrenchment, 320, 326, 329-30, 351-2.
- Reverse Councils, 230-1, 275, 345.
- Round Table Conference, 268, 272, 303, 373-6, 386, 389.
- Royal Agricultural Commission, 140, 343.
- Royal Labour (Whitley) Commission, 129, 393.
- Rupee
  - in circulation, 288-90, 480.
  - linked to sterling, 214, 263 f.—at lower point, 298-300.
  - made standard coin, though only a token, 201, 207.
- Rural indebtedness, 214.
- Salt, duty on, 369-70.
- Savings and investment, 64-5, 104, 121, 535-8, 546, 555, 557-9.
- Schedule Banks, 225-6.
- SEARCHLIGHT, 437.
- Security prices, 334.
- Silver
  - duty on, 362, 368-9.
  - fall in price and exchange, 201-2.
  - mints closed to free coinage, 202.
  - rise in price during World War I, 208.
  - sales, 362 f.
  - standard practically restored, 207.
  - thread and wire, duty on, 370.
- Simon Commission or its Report, 133, 375, 380-1.
- Standard of living
  - already low, 15.
  - growing desire to raise, 129.
  - material improvement of, 533-4, 544.
  - no room for lowering, 139.
  - yet lowered further, 492.
- State enterprise or nationalisation, 56, 120.
- STATESMAN, 316.
- Sterling Balances, 216, 219-20, 418
  - a unique contribution, 497-8.

- Sterling Balances, 316, 219-20, 418.
  - acquisition through surplus exports, 472-73.
  - greater poverty in India, 492.
  - safeguarding our interests, 499 f.
- Sterling debt, its repatriation, 219, 445, 473, 494.
- Stock Exchange deterioration, 536.
- Strikes, loss from, 394-6.
- Sugar
  - consumption of, 15, 353-4.
  - excise duty not refunded, 527.
  - import duty on, 360.
  - national wealth increased, 400-1.
- SUNDAY TIMES, 418.
- Tariff Board, 63, 149-50, 152, 154, 190, 337.
- Taxation
  - cannot create money, 351.
  - discrimination between two kinds of earnings, 65-6.
  - overhaul of whole structure, 104.
  - policy needs revision, 546.
  - taxable capacity exceeded, 328-9.
  - too high, 321, 538.
- Tennessee Valley Authority, 106, 117 (Scheme), 555.
- Tertiary occupations, 125.
- Tourist Traffic, 125.
- Treasure imports and "hoarding", 354.
- Trade Disputes Act, 398.
- Transport and Communication, 125.
- United Commercial Bank, 532.
- Unproductive debt, 324, 328.
- Velocity of circulation diminished, 478-9.
- Wages
  - adjustment to 18d. rate incomplete, 211.
  - in industry, 408.
  - rationalization, 409.
  - rural and urban 408.
  - should not be too high, 409, 411.
  - who pays them? 410-11.
- War (I) expenditure in India, 218-9.
- War (II) finance, 447-51.
- Water power potentialities, 30, 125.
- Wool export, 443.











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